The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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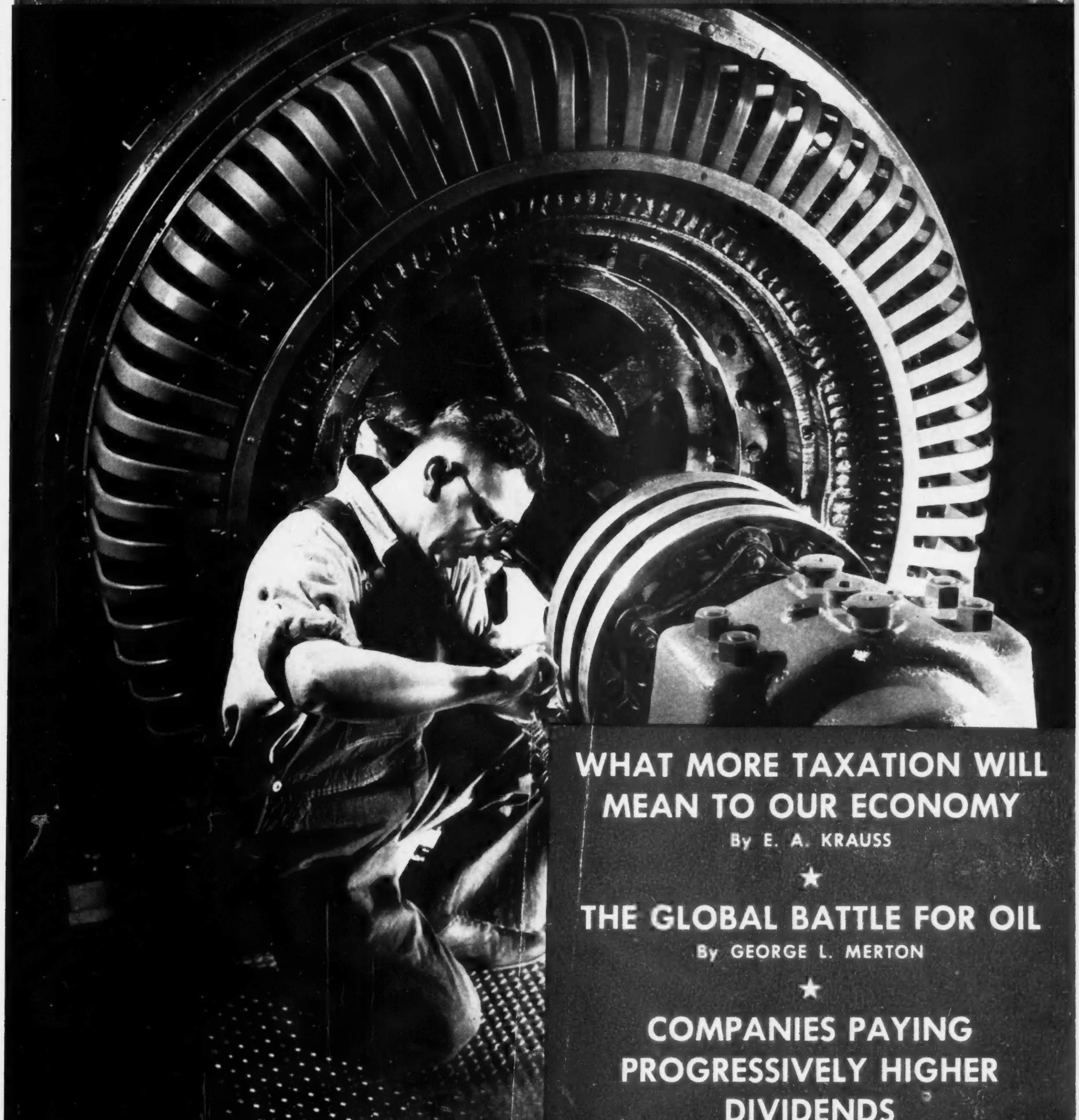
WEIGHING INFLATIONARY-DEFLATIONARY MARKET FACTORS ★



WHAT MORE TAXATION WILL MEAN TO OUR ECONOMY

By E. A. KRAUSS

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THE GLOBAL BATTLE FOR OIL

By GEORGE L. MERTON

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COMPANIES PAYING PROGRESSIVELY HIGHER DIVIDENDS

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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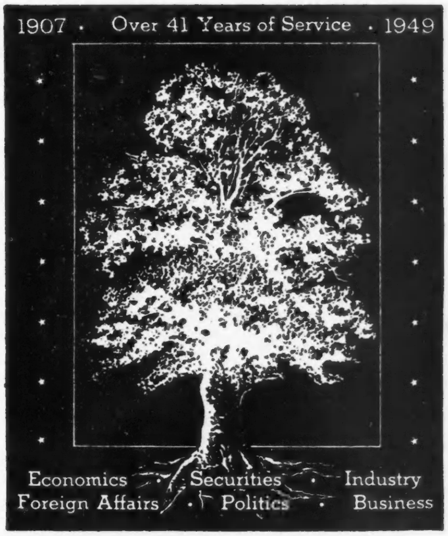
INTERNATIONAL HARVESTER

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

LEWIS ON THE RUN . . . John L. Lewis has called a truce in the coal strike. After 52 days without work in behalf of demands never explained to them or the public, the coal miners—broke and hungry— are now graciously permitted to earn a few dollars until November 30. Then, less than a month before Christmas, they will face a new crisis. What may happen then, Mr. Lewis alone knows, or will decide.

The people most to be pitied are surely the miners, and reliable reports have it that they are plenty sore—chiefly about Mr. Lewis. The miners enjoy top pay rates and if permitted by their union boss to work regularly, they would have nothing to worry about. But Mr. Lewis won't let them work steadily. So far this year he has had them out on two short strikes, then put them on a three-day week, and subsequently ordered them out on the long strike now interrupted by the truce. All the latter has accomplished was a cut in the above-ground supply of coal and profound financial injury not only to the miners but to the union's already depleted welfare fund. Moreover, coal consumers more then ever have been driven to the use of other fuels, the coal supply being never safe to depend on mainly because of the whim of one man.

Mr. Lewis sound and fury in announcing the truce is a sure sign that he is losing ground. For the time being it also takes President Truman off the spot because it saved him at least temporarily from having to recognize the emergency and apply the law approved for such cases by Congress. But as Mr. Lewis and the coal operators are squaring off for another try at getting together, there is a definite impression that the union boss is on the run. This time, it seems, he has really outsmarted himself. The belief is he won't risk another strike by December 1; instead he may prolong negotiations and renew his attempts to drive a wedge between the operators.

Mr. Lewis is on the spot because his miners have already suffered severe losses of income this year due to previous strikes and the three-day week. December 1 is close to Christmas when miners, like everybody else, want holiday money. They cannot get it by striking. The coal strike in fact has been so unpopular that it came close to disintegration, and Mr. Lewis has recognized the signs. Rather than have it blow up in his face, he preferred to call a truce, nobly professing a desire to prevent hardships due to lack of coal. He didn't mention that the rank-and-file was thoroughly fed up and ready to do something about it. He won't find it easy to order them out again three weeks before Christmas.

We won't go as far as to hope that this sorry experience, from the miners standpoint, has broken their faith in Mr. Lewis, but it most assuredly should have. They have been, and are, merely helpless pawns in Mr. Lewis struggle for ever greater power, whether they recognize it or not. But the overbearance of the type which Mr. Lewis has practiced so long to the detriment of his miners and the nation as a whole is bound to come to fall eventually. The time may be nearer than we think.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

WHAT PRICE PENSIONS? . . . In

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-one Years of Service"*—1949

these days of private and public preoccupation with pensions and old age insurance, it is important to remind that however desirable the solution of the old age security problem, is also creates many new problems which may be far more difficult to cope with than we think. The biggest and most difficult is how to make security secure, and we are doing nothing to progress in this direction. Instead we travel the other way.

The shortcomings of the Federal pension system are not the result of basic misconceptions. Main complaint is that the benefits are to small for those who are insured, and payments are inadequate because of the rise in prices and living costs.That is the biggest threat to any pension plan, and militant labor now driving hard toward universal worker pensions in industry will do well to take note of it. What price pensions if we undermine their value by policies which will further cut the purchasing power of the dollar? It matters not whether such policies originate with labor or Government, whether they tend to raise production costs and thus prices or whether the route is via fiscal and credit inflation. Anything that will further cheapen the dollar will jeopardize pensions. Pensions have real value only in a stable economy.

It would be nice to be able to think that with all parties realizing this, there will be sufficient inducement to maintain economic stability, to obviate any further threat of instability. Alas this is not so. Government goes on spending more than it takes in, and labor does not look exactly contented even where they have won their pension demand. Should the cost of living rise further, because of the burden of pension demands, we may face not only demands for compensatory wage boosts, but something brand new—demands for compensatory hikes in pension rates!

We are already facing this very same thing with the Government pension program which is up for revision not only to meet inadequacies as to coverage but to bring payments more in line with living costs. Under the present Social Security law, only a relative handful would qualify for the top payment of $85 monthly, and that sum is supposed to take care of a family. But the average old age and survivors benefit is no higher than $25.77 a month. Under the new bill, benefits will be raised appreciably, the minimum from $10 a month to $25, and the present average of about $26 would go up to $44. Still such payments are not impressive in the light of today's living costs, and they have practical meaning only if we have seen the end of price inflation. To prevent more of the latter should become the primary aim of all the pension-minded including organized labor, and it certainly should be the foremost policy of the Government. Otherwise what price pensions? Security cannot be secure until we have stability.

EUROPEAN INTEGRATION AN ELUSIVE GOAL . . . Paris in recent weeks has been the center of a great deal of talk but little accomplishment concerning steps towards European economic unity and cooperation, a goal that today seems just as elusive as ever. The issue of unity was put squarely to the Marshall Plan council by Paul G. Hoffman. Strong American pressure was brought to bear from the highest quarters to push a reluctant Europe toward the unity in which alone it can find strength. But results so far have been disappointing despite the belief that Europeans at long last are beginning to realize that their only real hope lies in getting together. In the way stand the same old jealousies, the local selfishness and narrow nationalistic concepts which have made progress and recovery so difficult in the past. It would be unrealistic to assume that they will be dropped forthwith under American pressure.

Particularily has there been a widening of the split between Britain and France, their relations already aggravated by sudden sterling devaluation and the British proposal to cut import quotas between ERP nations by 50%. France has labelled the move a bluff charging London with another failure to cooperate. Prior to that, Britain has gone on record that she could not take part in European economic integration in any way that would prejudice her relations with the commonwealth or sterling area. In France this was widely interpreted as virtual official consummation of the long-standing Anglo-French cleavage grown acute after sterling devaluation.

There are many other aspects to the situation but the composite picture is one of a real Anglo-French feud which could well become just as grave as that which made a European settlement impossible between World Wars I and II. It is this cleavage, particularly, which among other things has severely limited the scope and results of the Foreign Ministers Conference in Paris last week. Britain's negative attitude towards the unification idea has doubtless tended to undermine the whole project; on top of the difficulties to appease French sensibilities, it was apparently impossible to find enough common ground.

Hence the curiously empty statement issued after the "Big Three" adjourned. Hence also the almost meaningless resolution adopted by OEEC which merely called on member nations to remove import quotas from half of their mutual trade by December 15. Additionally France promised to speed up her plans for a regional customs union with Italy and Britain. These meager steps fall far short of what Mr. Hoffman has been asking or hoping for. His demand for integration was made because of pressure in this country for "results" from Marshall Plan dollars. Mr. Hoffman's warning was clear: "If you don't do something, Marshall Plan funds will be cut off."

Whether or not the limited results he got will satisfy Congress is a moot question. Perhaps the sights were set too high. Even now it seems that the response has discouraged pursuit of the original unification project and that it has been decided that economic "integration" should for the present merely consist of some reduction in import quotas and steps toward continental free trade blocs or customs unions, with Britain standing outside them to avoid the commitments they entailed.

The problem of economic integration and the corollary problem of Germany's entry into the Council of Europe discussed by the "Big Three' constitute two aspects of a question that faces Europe in her present stage of postwar recovery. The strictly economic issue of lowering trade barriers has at the same time also become a highly political one, creating numerous complications and weighing upon European politicians just as much as our domestic outcries against tariff reductions. This is one of the essentials of the problem of European unity, and one that cannot be easily or (*Please turn to page* 201)

As I See It!

BY ROBERT GUISE

WANTED: A CHINA POLICY!

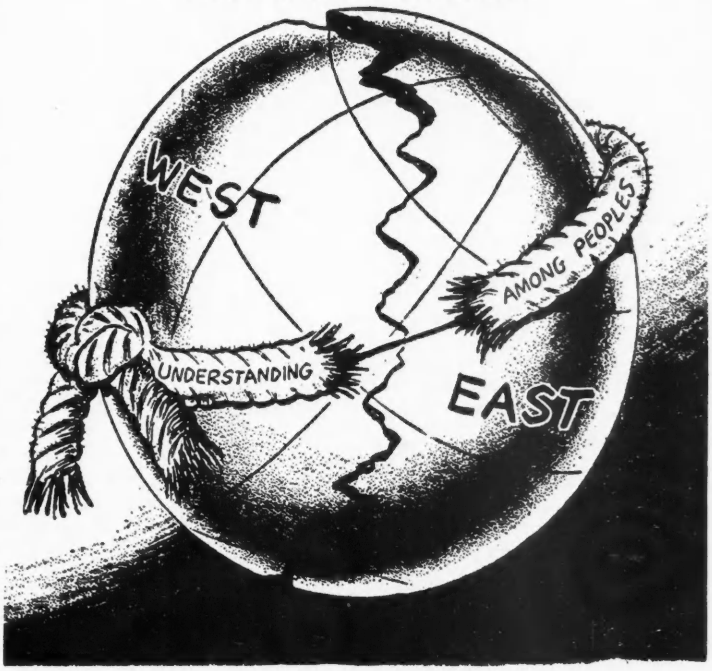
Secretary of State Acheson, when questioned some time ago about the possibility of American recognition of the Chinese Communist Regime, suggested that we should embrace the idea of waiting "for the dust to settle." Latest developments make it likely that this critical question is apt to come up for early decision. But if waiting was sound then, it is doubly so now since it is so apparent that there is a good deal more dust.

According to latest reports, Britain has informed the United States that British Far Eastern diplomats who met last week in Singapore, have recommended recognition of the Chinese Communist government. Announcement of recognition will be delayed until after disposal by the United Nations of the Chinese National Government's charges against the Soviet Union. France moreover is reported to have urged postponement until the French - sponsored regime of Emperor Bao Dai is more firmly entrenched in Indo-China. British recognition however is only a matter of time, a few months at most, and will come as no surprise. This country has been long aware of Britain's keen desire to come to some working arrangement with the Chinese communists. Nor is it any secret that Secretary Acheson's Far Eastern Advisers also believe that ultimate recognition is inevitable.

There are various schools of thought on the subject. Some argue that the situation in China has reached a point where recovery of the American position is impossible, and that nothing will be gained, but a great deal might be lost, by a policy of recognition. Others favor recognition on the theory that it might be well to "keep a foot in the door," and that "Titoism" may ultimately be expected to undermine Russian control in China. In such an event, recognition now might be a good thing to prepare for appropriate action later.

In our opinion, while events in the Far East certainly call for a drastic revision of our policy, recognition of the Communist Regime is hardly a step called for in view of the attitude of the Chinese communists towards the West and the undesirable implications which recognition would have.

"FRAYED TO THE DANGER POINT"



Brooks in the Birmingham News

This country for some time has been in discussion of the situation with Britain, and been under pressure from other nations to establish relations with the communists. Apart from Britain, India, Australia and the Netherlands apparently are all for it, being more interested in doing business with China than in anything else, though they may also believe, strangely, that non-recognition might create the very conditions which we are seeking to avoid. Such pressure is likely to increase, based mostly on the idea that Chinese communism is "different," that the Kremlin will never be able to swallow, let alone digest China.

That sort of reasoning makes little sense. As a matter of course, recognition of the Peiping government would help spread communism in South East Asia and beyond, with the loss of the entire Far East merely a matter of time. On the other hand, non-recognition would place serious barriers against the spread of communist influence. You simply cannot stop an evil by helping it along, and recognition would do just that. It would strengthen the communists and make their task of engulfing the rest of Asia so much easier. This is particularly something for Britain to ponder. A wrong step in this instance may cost them dearly.

Britain's position has been rendered delicate by the communist threat to (*Please turn to page* 201)

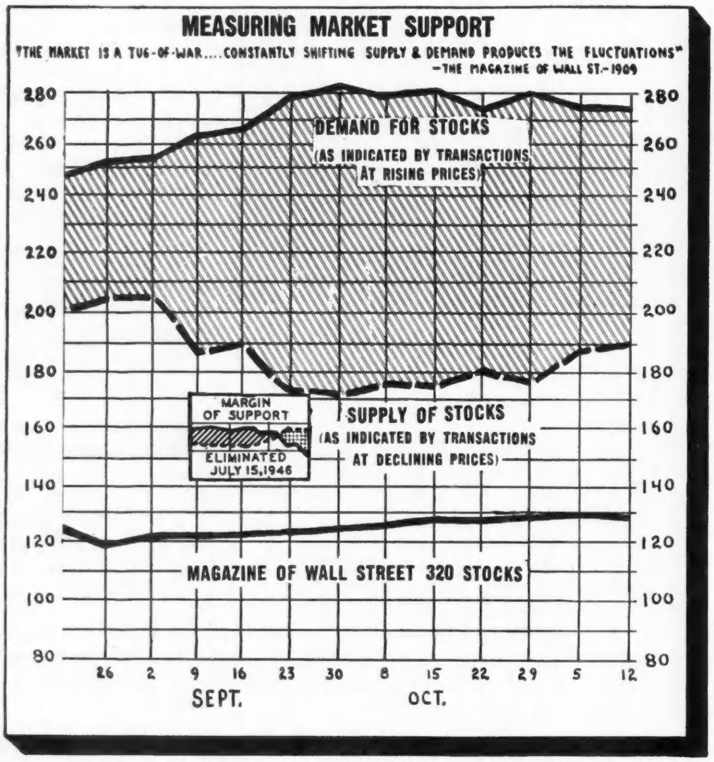
Weighing Inflationary-Deflationary Market Factors

On balance, the market got nowhere over the last fortnight. There are currently increasing, although still tentative, indications that a sell-off of some proportions may be in the making. Longer-term economic and political uncertainties are unresolved. Continue to hold conservative cash reserves for future buying opportunities.

By A. T. MILLER

The stock market has made no net progress over the fortnight since our last previous analysis was written. That fact may not be particularly significant, for periods of "sidewise drift" in the averages punctuate every intermediate rise and represent one form of minor technical corrections. However, there are other indications and considerations which justify both a generally cautious investment policy and a highly selective one.

It seems clear that, in speed and percentage, the best part of this rise occurred last summer. Mid-November finds the Dow industrial average less than 5% higher than its best level of August, the utilities about 5% higher, the rail average not at all higher. This means that the going has become more and more laborious within the upper one-third of the broad trading range which has been maintained during the last three years. There is no reason to suppose that this is going to change. It will take a much more confident general demand for stocks than has recently been evident if the market is to "break out" on the top side of the old range. And even should the industrial average manage to better the 1948 recovery high, the prevailing politico-economic environment suggests to us that it would probably be by a modest percentage, followed by a material sell-off. More likely is some degree of reaction before, or without, a penetration of the market's actual best 1948 level.



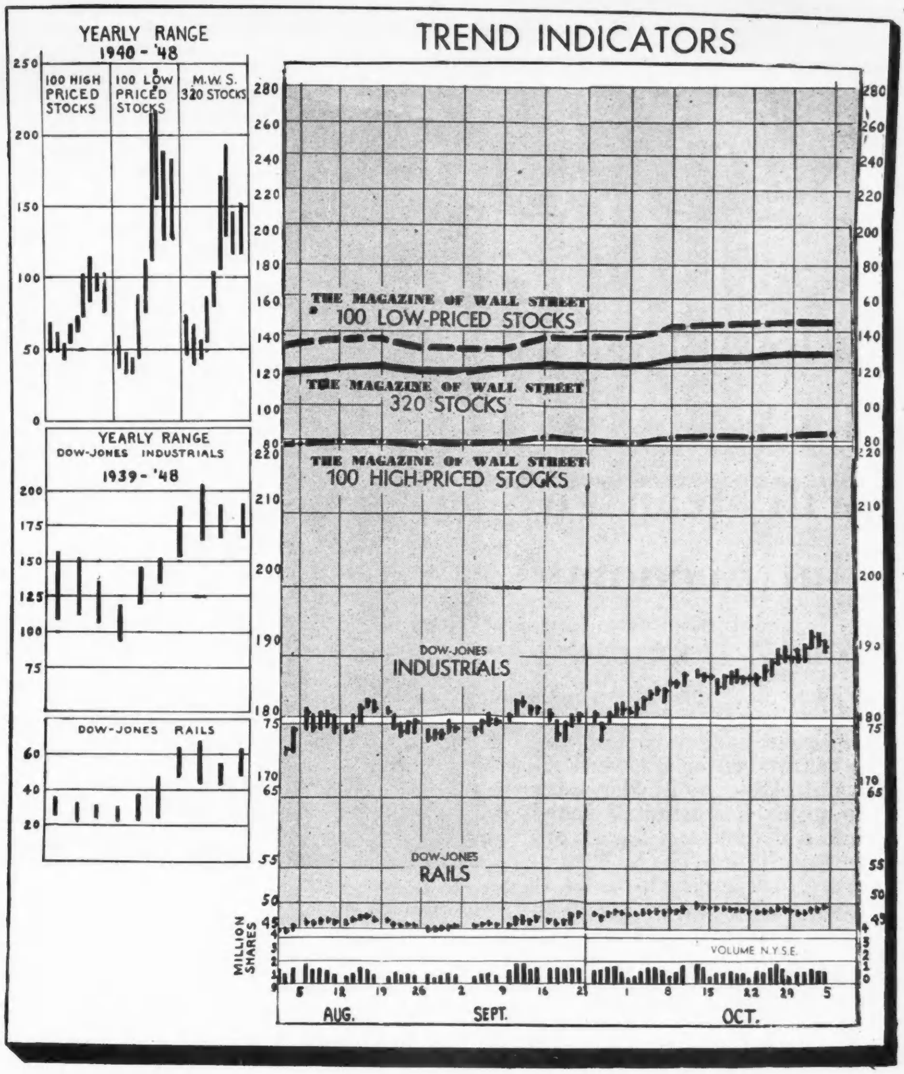
A Misleading Picture

Made up of only 30 prominent stocks, the Dow industrial average is a partial and imperfect mirror of the market. Enough of the individual stocks in this list of 30 have been in demand to put the average within immediate striking distance of its 1948 high, as of early November. That fact has not whetted any general speculative appetite to speak of, for a great many people — possibly even a majority — are more disappointed by the rise to date than excited by it. That is because they hold more stocks which are doing either relatively little or nothing, than are rising significantly. Were this a real bull market, there could hardly be so large a percentage of "duds" in it. Actually, the Dow industrial average is not telling the real story. More representative daily indexes are still an important distance under their 1948 high, while this publication's weekly index of 320 stocks was over 22 points under its 1948 top at its best recent level. Our weekly index of 100 low-priced stocks has yet to better even its previous 1949 high, made in the forepart of last January.

A major market advance requires cumulative speculative demand. This limited and notably selective phase has been sparked by a minority of stocks either responsive to investment-yield considerations or favored by exceptionally good earnings trends or both. Even where individual stocks are performing relatively well, in many cases it takes a phenomenal amount of "ammunition"

to make them do so — a fact which must give pause to any really objective analyst, for the "ammunition" is not unlimited.

For example, Chrysler sold at a high of 66⅞ in 1947 in which year dividends totalled $2.87½; at a high of 65¾ in 1948 on dividends of $4.00; but sold up only to 59⅛ following recent establishment of a $6.00 dividend basis. The $3.00 extra declared by General Motors puts 1949 dividends at a record $8.00 total, compared with $4.50 in 1948 and $3.00 in 1947; but this stock's recent high of 72¾ was only some 10% over 1947-1948 highs of 65⅞ and 66 respectively. With the best possible dividend news "out of the way," both ran into profit-taking. In short, the response to fabulous profits and dividends of the two premier auto stocks is relatively apathetic — and nowhere else is there comparable "ammunition" for market leadership.



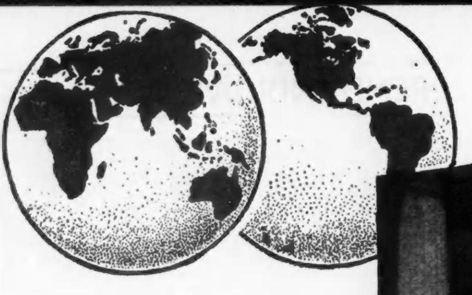
Suppose some popular and widely held group of industrial stocks turned weak? That would probably dash hopes for any extension of the intermediate recovery and might unsettle the general list. With that in mind, oils will bear watching. In historical price range they are at a far more advanced level than the market, and there is a very large bull position in them. The situation in the industry is touch and go. Supplies of both gasoline and heating oils are currently getting moderately burdensome, with seasonal consumption of fuel oil the decisive medium-term factor. The mild autumn has already hurt. It will take early cold weather to save the day. That puts one of the most important stock groups in the entire market on an uncomfortably conjectural basis at this writing.

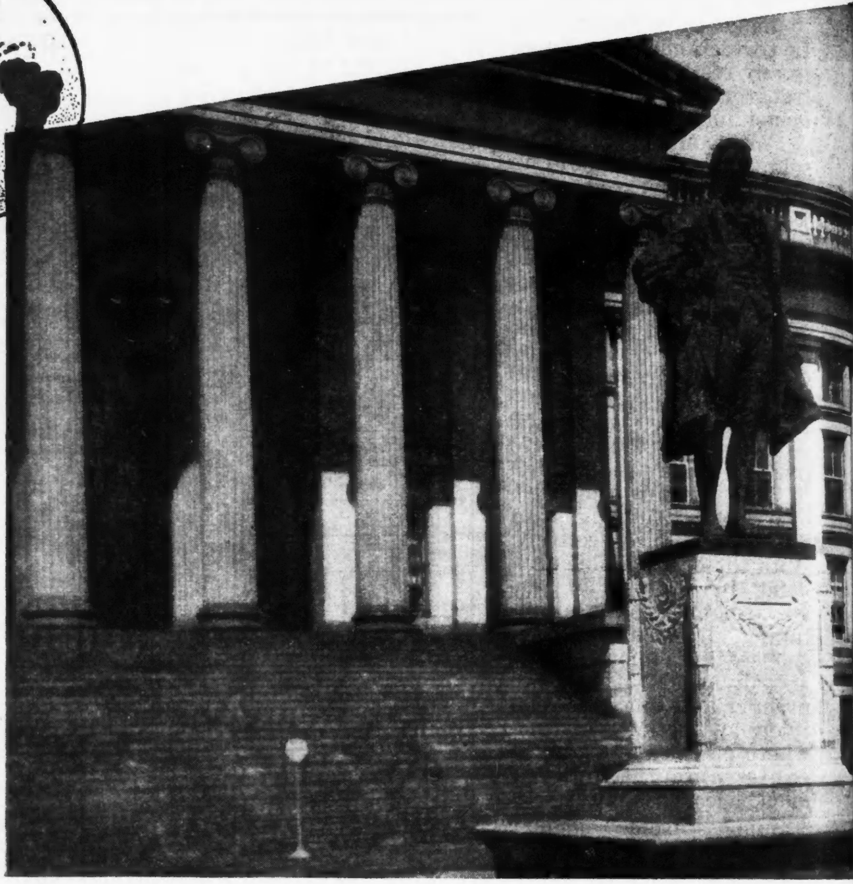
Undoubtedly one of the general props under the market has been "inflation sentiment." This stems in part from Federal deficit financing, which partially offsets deflationary tendencies in the economy, although the amount of the deficit is small relative to total private spending. It has also stemmed partly from widespread rumors and conjecture about a possible devaluation of the dollar at some time. There has even been a modest outward movement of gold from the U. S., whether induced by some of the foreign currency changes or doubt about the ultimate valuation of gold in dollars. Secretary of the Treasury Snyder has repeatedly denied that any change in the gold status of the dollar was contemplated. Last week President Truman also denied it in the most emphatic terms, whereupon gold stocks suffered a brisk set-back.

Only Events Can Give the Answer

Probably devaluation of the dollar is not "contemplated" under present domestic and world conditions; for, on the one hand, we face no serious deflationary crisis, and, on the other, dollar devaluation would undermine, perhaps fatally, the already weak trade and financial position of Great Britain, not to mention Western Europe generally. Since the Administration is committed to the Marshall Plan subsidies; and since it urged the devaluation of sterling as one step seeking to reduce Britain's dollar gap, it would not seem logical to counter the sterling move by altering the status of the dollar any time soon.

But only events will give the final answer. When and if it becomes politically expedient to tinker with the dollar to counter an onerous domestic deflation, it may be done. As the law apparently stands now, that would require an enabling act by Congress. Finally, keep in mind that no Administration will ever tip its hand on the (*Please turn to page* 201)





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What More TAXATION Will Mean To Our Economy

By E. A. KRAUSS

With issuance of the annual mid-year budget review, the taxpayers' vision of lower Federal budgets, and lower taxes to match, has definitely faded into a distant and highly uncertain future. The U. S. Government according to the latest budget estimate will spend $5.5 billion more than it takes in during the fiscal year ending next June 30. To end deficit financing, the President has renewed his demand for higher taxes, and there is every evidence that the Fair Deal is getting ready to propose an increase in the corporate income tax and high-bracket individual taxes to the next session of Congress, sweetened perhaps by coupling it with reductions in some wartime excise taxes.

The President's tax demand, incidentally, marks the second reversal of official tax policy in less than a year. In January Mr. Truman requested an additional $4 billion in tax revenues on the ground that a "prosperous country cannot afford an unbalanced budget." But his mid-year economic report submitted in July instead recommended tax concessions to stimulate business activity and accepted the policy of deficit financing, declaring that "we cannot expect to achieve a budget surplus in a declining national economy."

The economic outlook is now apparently considered sufficiently promising, it seems, to justify an increase in taxes large enough to balance the budget. Unfortunately no mention was made of the possibility of eliminating the deficit by reducing Government expenditures, although many congressional leaders were quick to express a preference for this course of action. At any rate it seems highly probable that the next session of Congress will devote considerable attention to tax matters though the fact that 1950 is an election year will likely weigh heavily against any general increase in imposts, while lending support to demands that wartime excise taxes be reduced or eliminated.

Tax plans are still in a nebulous state and no rounded program working toward a budget balance has been drawn up. With tax boosts unpopular and elections looming up, Congress may be little inclined to do anything despite the urgency of the matter. For political reasons, it would rather lower than raise taxes.

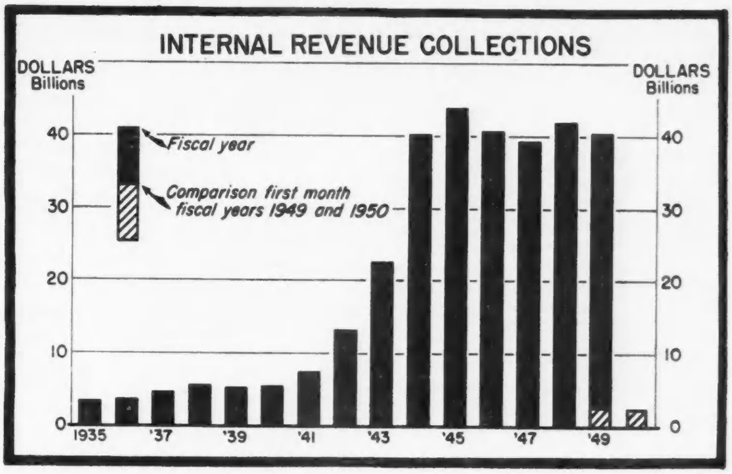
The Great Dilemma

Thus Congress as well as the Administration is caught in a dilemma. The feeling is, on many sides, that tax rates are about as high as they can go without impairing the economy, yet there seems to be no way to cut spending. The result is the prospect of continuing deficits, a prospect which in turn is bound to force tax matters on the agenda no matter how unpopular the issue. How to find enough money and still prevent the heavy load of taxation from bogging down business will be the key issue of the second session of the Eighty-first Congress.

There is no question that the idea of raising taxes at this stage is playing with fire. It could well transform a moderate and orderly postwar business adjustment into something more akin to depression. Taxation is already excessive and close to the point of diminishing returns, hence any such action may hit back in incalculable manner.

This because higher taxes strike directly at plant and equipment expenditures of industry, and at the prospect of raising enough venture capital to meet industry's needs. Business outlays are a major prop sustaining economic activity and any weaken-

ing of this prop would be a serious matter. By the same token, increasing difficulty in raising risk capital would greatly add to industry's handicaps. Thus business spending would actually be hit from two directions. An increase in taxes such as the President proposed, limited to corporations and the higher individual surtax brackets, could start a strongly deflationary chain reaction. It would cut down spending for durable goods, both by business and by consumers, and resultant recessive trends in the durable goods fields might quickly spill over into non-durables, affecting the entire economy. In short, it would cut down business potentials, reduce corporate profits and discourage new capital investments just when a stimulation of such expenditures and investments is urgently required.



Advocates of an increase in the corporate income tax are subtly suggesting that any higher impost on business could be passed along to the consumer, and thus will not really hurt the corporations. They forget that we are no longer in a sellers' market, that consumer resistance to high prices is marked and that any attempt to saddle them with the higher tax cost in form of higher prices would evoke only more consumer resistance. Moreover there is the matter of competition which among sellers works to hold down prices so that many of them would be unable to recover their costs fully. As it is, prices in many fields are already being reduced to sustain sales. Higher corporate taxes would certainly tend to cut down sales potentials and profits. With corporate profits already on the decline, the Government would end up with "killing the goose that lays the golden eggs."

When commodity prices were rising and the volume of production was straining industry's capacity, a case could be made for higher taxes. But we have emerged from boom phase into readjustment, into sellers' markets, into declining demand by business and consumers. To raise taxes further at this juncture would not only not balance the budget since no conceivable tax bill that could be forced through Congress would wholly fill the gap between income and outgo; it rather would reduce tax collections by producing a deeper recession with the unhappy consequences of more unemployment and deflation. The danger in this respect is patent.

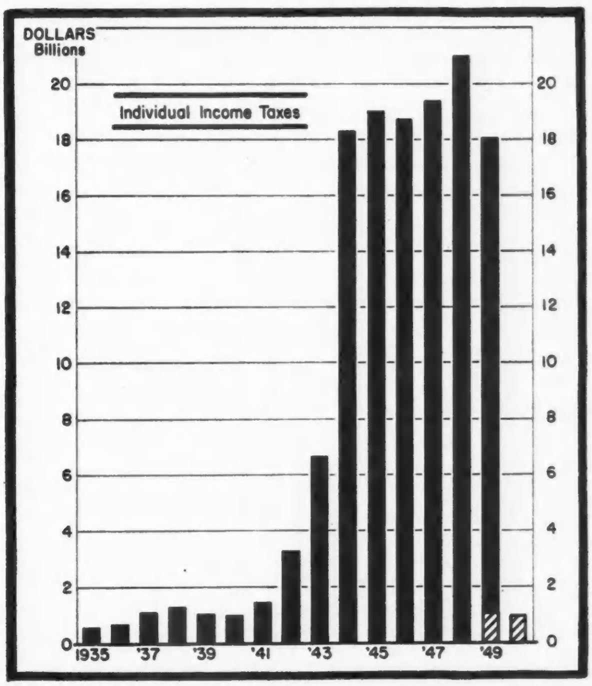
High Taxes No Remedy

The estimated $5.5 billion deficit is not just the result of increased spending; expenditures were upped only about $1.6 billion. But receipts will be $3.8 billion less, the result of lower prices, incomes and corporate profits in the wake of the recession which hit business after the turn of last year. Anything apt to reduce business potentials further (as higher taxes definitely would) would correspondingly reduce revenues from (lower) corporate profits, further widening the gap between revenues and expenditures.

We have done fairly well in keeping postwar adjustment on a rotational basis, and it is likely to continue so if we don't disturb the process. It would be inexcusable to risk bringing on a real depression through unwise tax policy. This far from ignores the urgent need to balance the budget. But the way to do it is to reduce Government expenditures, not to tax the economy to death.

Despite contentions to the contrary, Government spending can be reduced. True, many outlays may seem irreducible, such as for national defense, for debt service, for veterans, etc., but the Fair Deal program also entails the spending of billions for various social purposes which we simply cannot afford at this time. The trouble is that as long as we are determined that the Government shall subsidize the people in practically everything they do, the money has to come from somewhere, hence the budget dilemma. To resolve it, we must cut expenditures, not increase the tax burden, or else we shall never resolve it.

Unfortunately today, we find ourselves in such a sharply defined upward trend in Government financing, that its staggering demands for taxes and its accompanying clamor for new governmental encroachments defy all precedents. The real danger lies



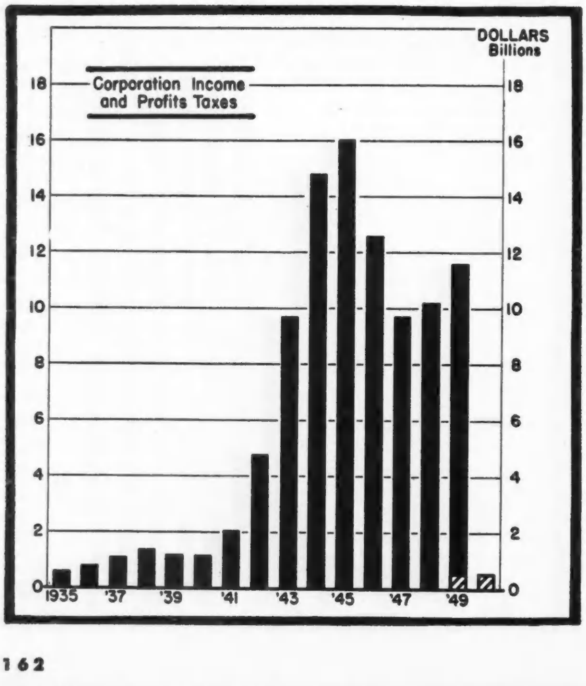
The Revised Federal Budget

	January Estimate	Current Estimate	Change
	(billions of dollars)		
Military programs	$13.2	$12.3	—$0.9
Foreign aid	4.5	4.1	— 0.4
Veterans' programs	4.4	5.7	+ 1.3
RFC mortgage purchases	0.2	1.3	+ 1.1
Commodity Credit Corp.	0.6	1.4	+ 0.8
Post Office deficit	0.2	0.6	+ 0.4
Interest on public debt	5.5	5.7	+ 0.2
Universal military training (proposed)	0.6	......	— 0.6
Aid to education (proposed)	0.3	......	— 0.3
Programs with no major changes	12.4	12.4	......
Total budget expenditures	$41.9	$43.5	+$1.6

in the fact that this trend, if continued, can too readily be transformed into a trail blazer for a type of Government structure entirely foreign to our American concepts.

Proof that such danger actually exists is furnished by the Administration's latest blueprint for a ten-year plan, a design for a new social and economic order. Back of it is not just the desire to bring to the people the advantages of a welfare state but the *absolute need* to strike out for much higher tax revenues to implement welfare planning. Even the President's economic advisers are notably reluctant to increase taxes at this time for fear of adverse repercussions on business. They point out that increased social security taxes due next January will mean more than $1 billion in added imposts in 1950 and that atop this increase, any additional sizeable boost in income taxes might upset business. Hence the new plan to expand national income to $300 billion with the hope that resultant greater tax income will be sufficient to balance the budget.

There is of course nothing wrong, per se, with any plan to stimulate production and advance the national income if we strive for this goal along natural



and healthy lines. One of the requisites would be a rebuilding of the tax structure to aid and assist all producing elements, and this hardly includes higher taxes! But as pointed out in our previous issue of the Magazine, the disquieting part of this plan is that it is to be carried out under Government auspices and responsibilities marking a new advance into centralized planning and towards more and more Government supervision and control. In the end this may well mean more taxes instead of less!

Corporate Business the Main Target

In any future tax-boosting program, the salient points are: Who will pay more and what will be the probable results? We have already pointed out the likely impacts—with corporate business and high-bracket individuals the probable main targets of the tax drive. This will be definitely restrictive, particularly under today's conditions. The Government is already taking a very large slice of the national income, and there is a point at which a bigger slice will produce a smaller total return. There is reason to believe that we are close to that point.

Already the cost of Government—Federal, state and local—rivals food as the biggest single charge on the public's purse. The postwar retention of high Federal taxes is not only an encroachment on consumer spending, but it has already placed a restraining hand on risk capital and programs of industrial expansion. Further exactions would serve only to give added impetus to a policy of industrial retrenchment with its resulting adverse effect on both earnings and employment, and with the next step more Government financing of business—and so on down the road to socialism. In this connection, it is not without significance that many stocks of leading corporations are selling on the market today at less than their intrinsic value!

The Inevitable Outcome

For definitely, one end result of the actual and proposed spending, and the taxation to meet them, will be that Government eventually becomes the major source of credit and capital in the economic system. Small business will ultimately be unable to find sufficient capital, and what private risk capital might be available would tend to flow to the large corporations. Another result will be that individuals, unable to save enough from their earnings, not only must reduce their standard of living but can no longer plan and work towards their own security. Their dependence on the Government will mount, as it does right now. Hence the drive for worker pensions, for larger old age benefits, for more social scurity, and generally for more "welfare" of every sort. All of which merely signifies the trend away from self-reliance towards substitution by Government largesse. Many forget, of course, that they still pay the bill, in one way or another, not only in form of high taxes but in loss of individual freedom.

With a proper eye on economy, there is no excuse for the Government's renewed entry into the field of borrowing to meet deficits, a policy that must necessarily prove hazardous even if relative prosperity continues, and highly dangerous if it does not. Just note what even a relatively moderate recession has done to the budget, and think of what might happen if things get a little worse. In the latter event, no matter how high we might raise (*Continued on page* 202)

. . . THE SHIFT IN . . .

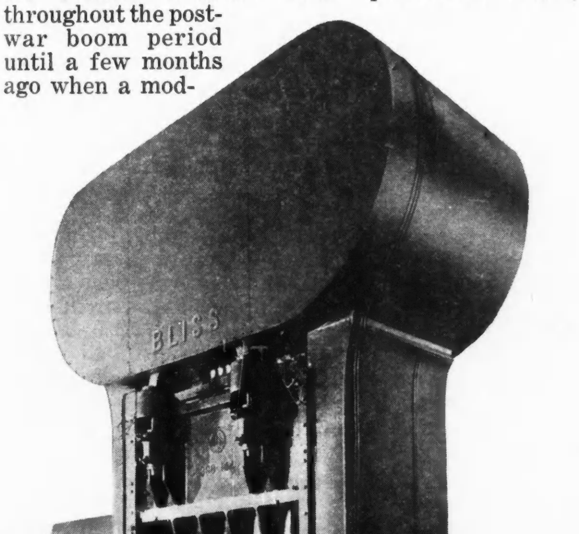
Durable—Non-Durable Production Pattern

— ITS CHANGING SIGNIFICANCE AS A BUSINESS FACTOR

By JOHN D. C. WELDON

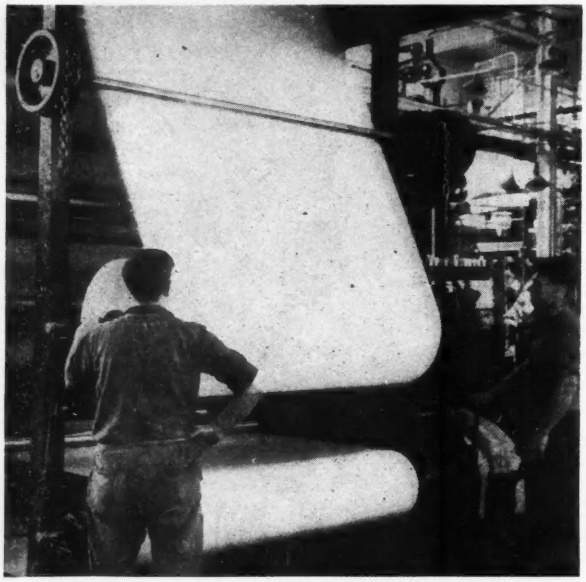
Forecasters of the business trend in recent months have closely watched the trend of activity in durable goods industries, particularly its movement relative to non-durable goods production which tradition has endowed with a measure of prophetic significance. What they looked for, until strike impacts began to distort the picture, was a clue to how much more recession, a sign whether the summer-fall business pick-up signified a turning point.

Economic adjustment until recently has largely centered on non-durable goods lines. In contrast, activity in most durable goods industries has held quite high, topping soft goods output — in terms of the Federal Reserve Board production index, throughout the postwar boom period until a few months ago when a moderate reversal occurred. Strike impacts of course have radically and artificially changed the picture. Once the strikes are settled, it will take a few months before the maladjustments showing up in the business curve will be smoothed out. Thereafter the durable goods trends will show just how much readjustment is still ahead before the economy is ready for another upturn.



Historically, there has never been a genuine upturn in the business cycle before the durable goods production curve had fallen well below the average level of industrial activity, and below non-durables. Generally the durable goods line in the past has been moving below that for non-durable goods, but whenever output of durables overtook production of non-durables, it always proved to be a warning signal of an impending decline in overall business. The same was true when the gap between the durable and non-durable components in the production index (see chart) narrowed to a "bottleneck." Such formations were usually followed by a downtrend in the over-all index.

The war period with its prolonged and heavy emphasis on durable goods output has naturally been an exception. Both the durable and non-durable goods lines rose sharply (the former much more so) and a steep drop was inevitable once hostilities ended, despite the ensuing boom in postwar civilian production. During the early part of 1946, the non-durable goods line rose while durable goods temporarily pointed steeply downward, reflecting strikes and reconversion handicaps. In a sharp recovery move later, the latter crossed the non-durable goods line and managed to keep above it, though sometimes by a narrow margin, until June this year when the two lines again crossed. Reflecting the summer



business pick-up, both lines have slanted upward but non-durables more so than durables, until the steel and coal strikes began to push the latter sharply downward (not yet shown on chart).

The question is: Does the historical pattern retain its former significance? Must there be a substantial drop in durable goods output before another cyclical upturn can materialize? Doubtless the decline of the durable goods curve, after the temporarily bolstering post-strike effects have worn off, is likely to continue if only because readjustment in major durable goods industries has barely begun. The point is: How much readjustment? On the answer will depend the further course of recession, its length and severity. In the light of previous experience, at any rate, readjustment can hardly be regarded as a thing of the past until a clear-cut shift in the relative production pattern has occurred.

In appraising the probabilities, however, one must not ignore the importance of consumer durable goods (as distinguished from capital or producers' goods) as a factor in the volume of total activity.

Income and Spending

	1948 Quarterly ($ billions) 1st	2nd	3rd	4th	1949 Quarterly 1st	2nd
Personal Income	$50.4	$52.4	$53.7	$55.4	$52.5	$53.3
Disposable Income	41.1	48.5	49.4	51.7	45.2	49.9
Personal Consumption Exp.	41.6	43.9	44.2	49.0	42.0	44.6
For Durable Goods	5.0	5.8	6.0	6.7	5.0	6.1
For Non-durables	23.7	25.0	24.9	28.7	23.1	24.4
New Construction	3.5	4.5	5.3	4.6	3.5	4.1
Producers' Durable Equip.	4.9	5.2	5.2	5.4	5.1	5.2
Personal Savings	—0.5	4.6	5.2	2.6	3.2	5.3

They play a relatively far greater role today in the overall business picture than they did a decade or two ago. In the past, a rise and fall in demand for producers' goods was the chief cornerstone of cyclical fluctuations, and it still is today. But with consumer durables occupying a dominant place in our economy, a revision of ideas of its practical significance may be in order. Today, consumer durables can minimize or intensify fluctuations in the durable goods sector in a manner probably unknown before, since demand for them has become a greater determining factor of the trend of durable goods activity as such.

Sign of Unbalance

Traditionally, in signalling general business improvement, increased consumer spending has preceded durable goods expansion, and a reversal of this trend has warned of recession possibilities. Something of the sort has been indicated for some time. Basically such signals point to unbalance within the economy that eventually calls for correction. In the field of producers' goods, demand is determined by the outlook for profits which causes producers to spend money for equipment and plant, or withhold such spending. The outlook for profits in turn is significantly governed by the spending propensity of the consumer, his ability or willingness to buy the output of the factories. In terms of their relative magnitude or importance, fluctuations in consumer durable goods demand can be quite as serious as fluctuations in industrial investment.

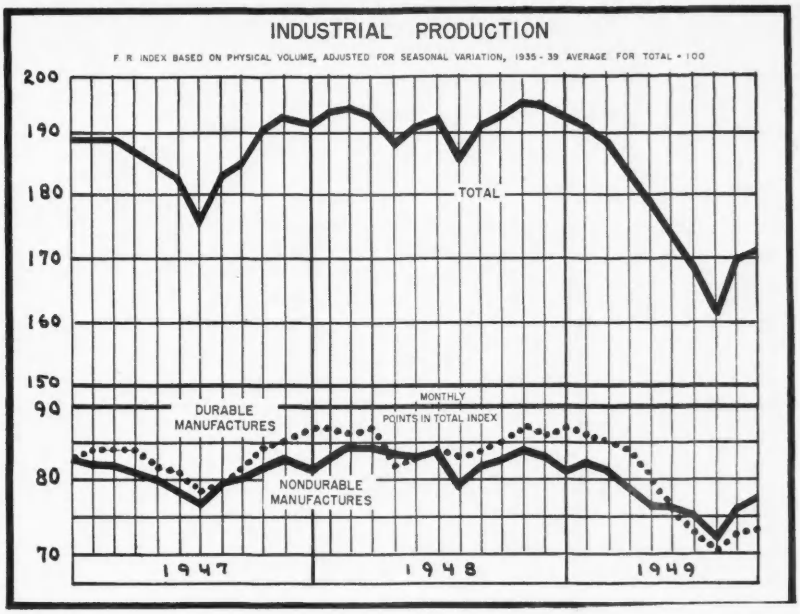
Prior to the strikes, about half of the factory workers in this country were engaged in the manufacture of durable goods. This proportion compares favorably with peacetime years of good business in the past. Durable goods industries have always been subjected to wider fluctuations than non-durables. The products of the former, as the name implies, are longer lasting, and in lean times their purchase can usually be postponed. Hence our major depressions have been accompanied by widespread unemployment in durable goods lines. Activity and employment in soft goods lines is steadier because their products are more quickly consumed, and consumers cannot wait long to replace them.

Thus durable goods employment has fluctuated closely with general business activity. In the prosperous postwar years 1946-48, durable goods accounted for about 51% of the number of factory workers. This was higher than for nearly every year except those of the abnormal war period when the proportion reached a high of 60%. For the peak month of 1948, the ratio was about 52%, and by July 1949 had shown only a mild drop to around 50%. This is corollary evidence of the modest degree of adjustment that has so far occurred in this sector of our economy.

Sustaining the Postwar Boom

We are well aware that the heavy output of consumer durable goods has gone far towards sustaining the postwar boom and still does, as witness the propping effect of high residential building activity, peak automobile sales and revived activity even in such formerly deflated lines as electric appliances, household furnishings, etc. The question is, of course: Will it last?

It may reasonably be answered in the affirmative when it comes to building, despite the industry's return to the former seasonal pattern. A slackening off of demand for automobiles, depending on its degree, is bound to affect durable goods activity more incisively; its backwash will be felt in such basic industries as steel, nonferrous metals, machinery, automotive parts, glass, plastics and many others. But there is little today that points to more than a relatively moderate drop in auto demand, at least for the year to come. Automotive activity is apt to continue as a strongly sustaining factor in durable goods.



Electric appliances and house furnishings sales, sharply off some months ago, have perked up but there is no clear-cut evidence that this marks the prelude to a significant trend reversal, or even stability, in this segment of the economy. Much of the gain in such items as television sets, refrigerators, radios, washing machines, furniture, rugs, if not seasonal, has been the result of extensive promotion and price cutting, and point moreover to an increased amount of instalment sales which lately has stimulated a considerable portion of buying power. Experience in these lines, however, has taught one thing: Consumers are responsive to price incentives. With *latent* demand still substantial and adequate room for price adjustment (where such has not already been undertaken), this augurs well for maintenance of a relatively large volume of business.

Savings vs. Consumer Durable Goods Outlays

A significant aspect of what happened during the last year or so is that it was not a decline in consumer incomes which led to recessionary trends, but a falling demand for goods and a corresponding increase in personal savings. This strongly suggests a compensatory relationship between savings and consumer durable goods expenditures. While both have risen sharply in postwar, their respective curves have been moving in opposite directions for a considerable period. Just as the drop in the rate of personal savings after the war had a stimulating effect on the economy, the increase in savings during 1948 had a reverse influence. Savings rose progressively since the fourth quarter last year (see table) while personal expenditures for consumer durable goods tended downwards (particularly if automobiles are excluded). Outlays for soft goods, on the other hand, have shown a fairly consistent overall pattern, subject to seasonal variations.

There are persuasive indications that what will govern the future volume of outlays for consumer durables is not only the residue of deferred demand which still exists and which presumably can be readily activiated by lower prices, but also the preference for financial liquidity of a good many consumers. The prospect of lower prices can be an important inducement to demand postponement, and vice versa. But perhaps more important is the apparent trend toward liquidity preference.

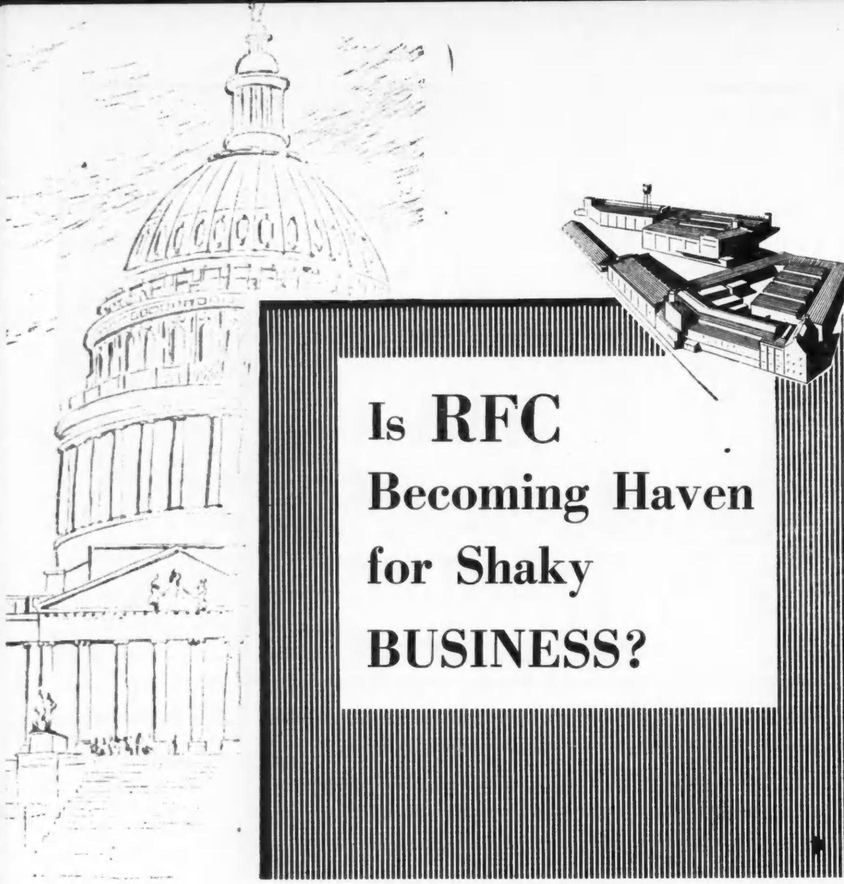
Today a vastly greater proportion of consumer durable purchases involves a commitment against future income, either in form of instalment payments or operating expenses (as in the case of an automobile) or both. The more a consumer has bought, the less he is able to buy in the nearer future, unless his income rises. Barring the latter, he is forced out of the market from time to time because of accumulated commitments against future income. In other words, consumer durable goods buying, since it is largely done on credit, has certain self-curtailing aspects in the shorter run at least, not only because of temporary satisfaction of demand but because of reduced ability or willingness to buy.

It is something which not even the Government can counteract. No amount of compensatory spending, unless it *increases* individual consumer income rather than merely sustains it, as is usually the case, can broaden consumer durable markets once they are in a declining phase because of prior boom and widespread satisfaction of demand. One remedy is for manufacturers to introduce drastic improvements, greater diversification of products, and to slash prices wherever possible with the dual objective of maintaining current demand and broadening the total market. And this is exactly what many are already doing, and others — such as the automobile makers will follow suit just as soon as necessity forces them.

Consumer vs. Producers Goods

All of which may seem somewhat removed from our primary subject, the pattern of durable and non-durable goods production and its significance, but it actually isn't, because the elements discussed have an important bearing on the future trend of consumer durable goods demand, and thereby on total durable goods production.

What about the other segment, producers' goods? It, too, appears to be in a declining phase after virtual completion of most postwar expansion programs by industry. To- (*Please turn to page* 198)



Is RFC Becoming Haven for Shaky BUSINESS?

By JOHN C. CRESSWELL

The current heated controversy over the Welfare State has been recently extended to involve business enterprises as well as the common man. Recent action by the Reconstruction Finance Corporation in lending large amounts of taxpayers' money to promote new enterprises or to bail out firms with highly questionable credit standing spotlights a new trend that savors strongly of socialism.

Admittedly, the 80th Congress appears to have been somewhat casual when in 1948 it passed a law to extend the authority of RFC until May 25, 1956. Much difference of opinion was evident at that time whether the Corporation had not outlived the purposes for which it was originally established and should be dissolved as rapidly as possible. Created in 1932 to alleviate the distress of small business and to strengthen the economy through loans to banks, railroads, insurance companies and agricultural credit agencies, the RFC functioned very efficiently for a number of years. Because of widespread prosperity last year, it seemed to many that its lending activity was no longer needed. Under presure from several directions, however, Congress compromised with the passage of Public Law 548.

Under the terms of this measure, the corporation's capital structure was reduced to $350 million, of which $100 million represented capital stock (owned by the Treasury Department) and accumulated surplus in any year was limited to $250 million. The life of RFC was extended only to 1956, as we have pointed out. These steps rather clearly indicated that Congress intended gradual liquidation of this giant lending authority.

On the other hand, Congress rather loosely defined the purposes for which the Corporation was continued, leaving the door wide open for various interpretations that have become largely responsible for the current wave of argumentation. Public Law 548 specifies the functions of RFC as follows: "To aid in financing agriculture, commerce and industry, to encourage small businesses, to help in maintaining the economic stability of the country and to assist in promoting maximum employment and production."

After limiting outstanding loans to a maximum of $2 billion (commitments made subsequent to June 30, 1947) and paring down the corporation's authority in several other respects, Congress made this further restriction: "No financial assistance may be extended to business enterprises, financial institutions or public agencies unless the assistance applied for is not otherwise available upon reasonable terms. All of such loans must be of such sound value or so secured as reasonably to assure repayment." While this wording obviously was intended to curb competition by the Government with private banking, the generalities employed left a great deal to the judgment of those in charge of RFC. Furthermore, no limit was set to the amount of funds that could be loaned to an individual borrower, except that in a participation agreement with a bank, the Corporation is held to a restricted percentage. All said, the way seems to have been cleared for RFC to embark in a period of general prosperity on a basically hazardous banking program with large loanable funds at its disposal.

What has currently fanned the sparks of criticism against this program has been an admitted shift in the policies of RFC to advance very large sums to certain enterprises hard pressed for working capital.. The controversy centers on the Kaiser-Frazer Corporation loans of $34.4 million to finance new manufacturing operations and $10 million additional to help K-F dealers finance their purchases of automobiles and parts. Combined with $152 million still due the RFC by the Henry J. Kaiser empire in connection with purchase of Western war plants, this makes a total of no less than $196 million of taxpayers' money risked in the enterprises of a single group. As of March 31, 1949, total commercial loans of RFC were reported as $350 million, up from $303 million when the Corporation got a new lease on life ten months earlier. Presently the aggregate has risen to at least $416 million, without including many new loans undoubtedly made to small businesses this summer. Percentagewise the Kaiser interests thus have been alloted a sizable portion of the public pie, or about 48%. It must not be over-

looked, on the other hand, that the bulk of the remaining portion has been loaned to more than 5000 smaller business firms located from coast to coast, with the average debt somewhat under $40,000.

A Fundamental Question

The main question arising, aside from the fundamental merits or demerits of Uncle Sam assuming the role of a beneficent banker in the risk capital field, is who will get assistance and why, rather than the size or number of loans made. Wide approval has followed the sale of surplus war plants involving instalment payments over a period of years and Mr. Kaiser has established an excellent record to-date for prompt payment of all sums due for principal, interest and taxes. In this current year of record prosperity for the automotive industry, however, the Kaiser-Frazer Corporation ran more than $8 million into the red during the first six months, a very discouraging result for shareholders who had invested $53 million to compete with the strongly entrenched concerns in this dynamic industry.

As usual with most new ventures, the management now seeks a new approach to potential success, in this instance through introducing a car in the lower price range. After trying in vain to raise the necessary capital through bankers made wary by the initial experience, Mr. Kaiser has solved his problem by turning to RFC, though in the process all corporate assets had to be pledged. Time only can determine whether this venture will succeed or land the Government smack in the automobile business.

In other postwar ventures of RFC into the industrial banking field, some have seemed rather justifiable and give hopes of turning out well. Take old established Waltham Watch Company, for example, forced to close down after continuing a business started back in 1853. With impaired credit and with stockholders unwilling or unable to meet pressing obligations, the chances for recovery looked dark until the RFC came to the rescue with $6 million of essential working capital. Under new management and with an excellent reputation in the trade, this venerable enterprise may now provide employment for its workers over a long period to come.

To assist in helping the air transport industry recover from a bad slump, RFC also made a constructive move in lending Northwest Airlines $12 million for the purchase of new planes, though its liberality was motivated by problems connected with the National Defense Program.

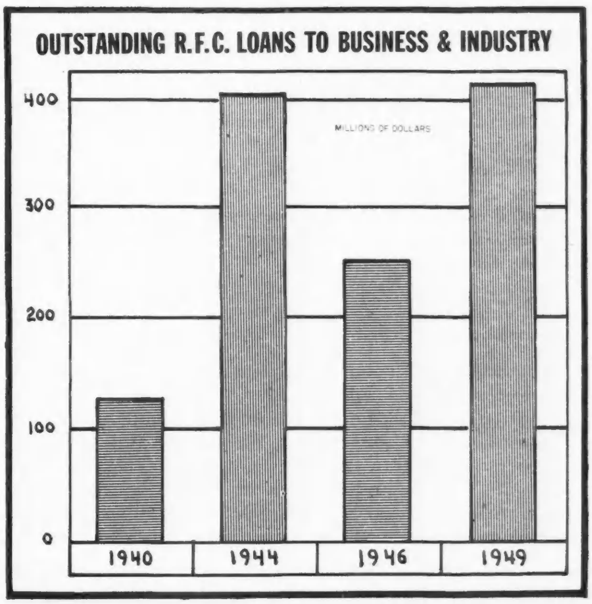
A much more questionable move of the RFC was its decision to finance Lustron Corporation, an entirely new venture in the field of prefabricated houses to an ultimate extent of $37.5 million. Administration pressure back in 1947 was responsible for landing RFC in this drab undertaking, the primary idea being that numerous low cost homes for veterans would be constructed. As compared with the substantial loan from Washington, the private investment of $840,000 was very meager. It is said that Carl G. Strandlund, president of the company, risked only $1000 of his personal funds in this venture, though he holds 51% of the common stock.

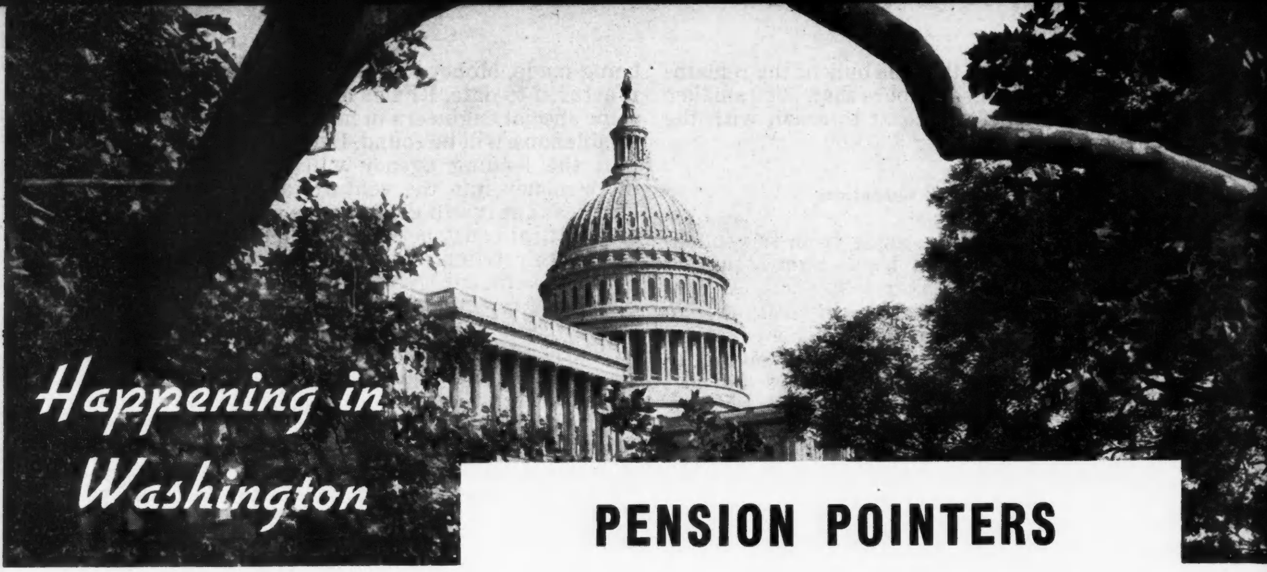
When the company got its first loan of $15.5 million in 1946, Mr. Strandlund assured RFC that by the first part of 1949, he would have produced 17,000 houses, but operating and distributing difficulties piled up and at present only about 6 houses a day are being made. Money has been lost on every unit manufactured to-date. RFC is now awaiting the report of some special engineers in hopes that some way out of its dilemma will be found, but at best it's pretty sure that the lending agency will have to pump some more money into the venture, and with about even chances that it will go down the sink. The houses are of practical construction, but their cost will have to be severely trimmed in order to reduce their price below the current level around $10,000, that is if demand will suffice to warrant mass production.

So much publicity has arisen over the recent loan to Kaiser-Frazer Corporation, that when Congress convenes, the activities of the Reconstruction Finance Corporation will assuredly be subjected to deep scrutiny and at a fairly early date. Senator Fulbright, a member of the Senate Banking Committee, telegraphed the RFC that "my present information indicates that the proposed loan is not in accord with the objectives of the RFC Act." Senator Capehart of Indiana, another member of the Committee, has concurred in these sentiments. But the RFC has rejoined that any delay was impossible because the board of directors had already authorized the loans and that the board was convinced their approval was in complete accord with the Act in every respect. As might have been expected, Mr. Kaiser threw himself into the controversy, charging the Senators with all kinds of political chicanery.

Policies To Be Probed

Whatever develops in this interesting situation, the crux will come when a Congressional Committee settles down to probe into the policies of RFC as recently unfolding and studies the pros and cons of the Corporation's usefulness and where it may be heading. The dangers of political favoritism in granting loans are very clear, as well as the hazard of employing large amounts of public funds in other undesirable ways. Senator Fulbright, for example, goes so far as to decry the practice of bolstering up weak enterprises at all in our free enterprise system. There are certain to (*Please turn to page* 200)





Happening in Washington

PENSION POINTERS

By E. K. T.

CONGRESS will be defied by the Civil Service Commission on the demand that CSC turn over to a house committee, complete files on the work of trial examiners for federal agencies, particularly those of National Labor Relations Board. This is considered by congressmen a strange attitude on the part of the commission which recently spent money and the time of its staff inquiring into the validity of complaints by business and industry that the trial examiners are prejudiced. Labor organizations seem satisfied with the present appointees; in fact vigorously opposed the CSC inquiry which, it was thought, would lead to wholesale firings. Oddly, the commission can refuse disclosure.

WASHINGTON SEES:

Gains made by organized labor in obtaining noncontributory pension plans through which the employer pays all, aren't promoting the general satisfaction that some of the gloating pronouncements by union leaders would lead one to believe. Voices now crying out in the relative wilderness of discussion are becoming pronounced in their warning against too great reliance upon the "free ride," lest the huge body of organized workers in independent plants throughout the country be lost.

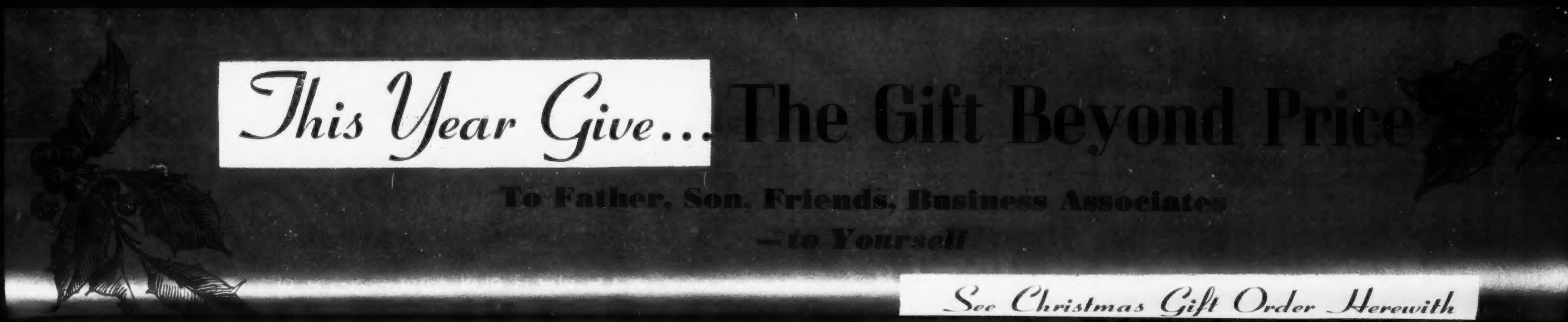
Present goal of the unioneers is a uniform $100-a-month pension for all retired persons. And if the powerful International Association of Machinists continues to exert the large degree of leadership it has in the past, a drive will be made upon congress to vote such retirement payments in substitution for the private plans which cover several of the larger industries, but overlook the mass of workers. Cited is the federal social security system which pays out at the age of 65 regardless of how many times the eligible workman has shifted jobs over the years, contrasted with the Bethlehem and Ford plans, for examples, in which a man may lose all if he quits or is discharged after 20 years of continuous service.

Also, it is reminded, the 25-year retirement plans won from private industry may have the effect of making it difficult for any workman to obtain employment if he would reach the pension age in less than 25 years. On that point, the Machinists submit: "The opportunity to work until he reaches the retirement age is at least as important to a man as is his pension after he retires."

NEWSPAPER publishers are being implored by employers in otherfields to appeal to the Supreme Court from an NLRB ruling that printers must be paid for setting type which is not intended to be used. Called "bogus work" by the newspaper owners, this activity consists of re-setting advertisements which are submitted in mat form or other types of composition. The mat or other material is used in producing the paper, then the printers reset it and throw their composition away. It's the same as paid vacations, properly a subject for labor demands, reasoned NLRB. Other employers fear, however, that it will give spread to the principle behind standby orchestras with full pay, no play.

LIQUOR bill of the United States dropped nine per cent in 1948 against the preceding year but still accounted for expenditures totaling 8.8 billion dollars. It was the first time since 1938 that a decrease was reported in the amount spent over the counters and bars. Board of Temperance, the national prohibition lobby is pleased, but seemingly overlooks the fact that alcoholic beverages find their best markets in periods of stress such as the 1938-1948 era of preparation for, conduct of, and let-down from war, when new brands unaffected by price ceilings came upon the market. Overlooked, too, are the post-war price declines which throw the gallonage reports out of focus.

COST OF LIVING reports of the Bureau of Labor Statistics will undergo a complete overhauling, and the process is long overdue. Labor-management negotiations on wage increases have used data which has been outmoded, and the same has been true of marketing experts planning sales campaigns. On the basis of newer data, some wage contracts based on cost-of-living shifts may be adjusted downward.



This Year Give...
The Gift Beyond Price
To Father, Son, Friends, Business Associates
—to Yourself
See Christmas Gift Order Herewith

As We Go To Press

Following closely upon disclosure that the Department of Defense plans large increases in personnel now that congress is safely out of Washington, comes revelation that the military arms are not alone in the project. While professing to cut budgets to bare essentials, the departments evidently have slipped in a few thousand dollars here and there to expand manpower. It's the age-old evolutionary process of a bureau, constant expansion.

By postponing action on several major appropriations bills until they had suit-cases packed for departure, congress and particularly the senators, sped through items that wouldn't pass muster if handled in the earlier days of the session. The result may be a minimum of 50,000 new payrollers when the lawmakers return to the Capital. New farm legislation will require ""several thousand" employees, mostly in the lower brackets; Commodity Credit Corporation alone will add 1.000 to administer price supports, the wheat agreement, on-farm storage, etc.

Interior Department will begin at once to recruit 10,000 additional workers, mostly in the Bureau of Reclamation. The Housing and Home Finance Agency through its units concerned with the new public housing act sees 4,000 as the minimum of new hands. Department of Labor, meeting the demands for more detailed cost-of-living studies, will add about 400. Quickest return on payroll expenditures is expected to come through the hiring of 4,000 new employees by the Bureau of Internal Revenue to conduct tax enforcement, pick up overdue checks from taxpayers.

Wholly apart from the more permanent staffs of the old-line agencies, and biggest of all the expansion projects for 1950, will be the recruitment of an army of Census Bureau workers, most of whom will be on the payroll for about one month. Government's major employer next year will be that bureau, with 185,000 men and women on its roster to make the door-to-door enumeration. When the data begins coming in, 10, 10,000 clerks and tabulators will be installed at desks here and at other points, given about one year's employment.

Very much in the hush-hush category is the military general staff's forecast of what will happen industrially should a third World War come. Studies are predicted upon the belief regardless of what the navy men say) that the major damage will be done from the air. The Eastern Seaboard has been pinpointed on the strategists map with the concentration in a zone running from middle New England to the North Carolina line. In that area are not fewer than 50,000 factories which could play a major or a minor role in supplying the needs for defense and pursuit. But an aggressor could put a fractional number of that total out of commission with devastating effect upon the country's safety, the planners agree.

Naturally there will be no public announcement revealing which plants are of greatest concern to the military men. That isn't because the defense agencies believe their existence can be kept secret from an enemy, but because panicky reaction on the part of the public is to be avoided. However, the plant operators will soon learn: inspections will be made to determine whether defense installations, especially military airfields are located in the best strategic points, whether certain projected new plants should go underground.

Popularity of real estate as an investment is continuing, Federal Reserve Board finds in its newest study on consumer finances. Established was the fact that one out of each six family "units" owns some real estate other than the plot occupied for residential purposes or worker as a farm. In a majority of cases the holding is a vacant lot on which the family intends to build "sometime." These properties were found to be in healthy financial position; few of them are mortgaged.

Home Owners Loan Corporation will go out of business in 1951 with a final report that will show it is possible for a government agency to operate on a profit basis if

given sufficient latitude and time. HOLC went into business to take over mortgages which private lending agencies could not, or would not handle any longer. The loans were in arreas and foreclosures threatened. Of course it must be remembered that HOLC had none of the problems of a private enterprise: it didn't have to solicit funds from the investing public and if it went broke . . . well, it was just too bad.

In any event, the remaining assets of the agency will be disposed of in about 18 months. Losses in the first years—the middle 30's—were huge; the turn toward profit operation began late in that decade and has ben accelerated. This year, 77,000 of the contracts were closed out with assets reduced by 100 million dollars. Meanwhile, earlier losses have been compensated for and the Treasury will receive a small cash return when HOLC folds up.

By purging itself of communist-controlled affiliates, the CIO may have paved the way for amendment of the Taft-Hartley Act in the next session of congress. Serious thought is being given by labor committee members to repeal of the anti-communist oath which must be subscribed by unions wishing to avail themselves of the procedures of the National Labor Relations Board. Such action, it is suggested, would be an expression of congratulations to CIO which might lead other unions into a cleansing mood. The labor groups resented the implications from the start, particularly because the oath was required only of the employee, not the employer. Having placed its resistance to compulsory signing on the record, CIO then proceeded to bring about the sought-after results on a voluntary basis.

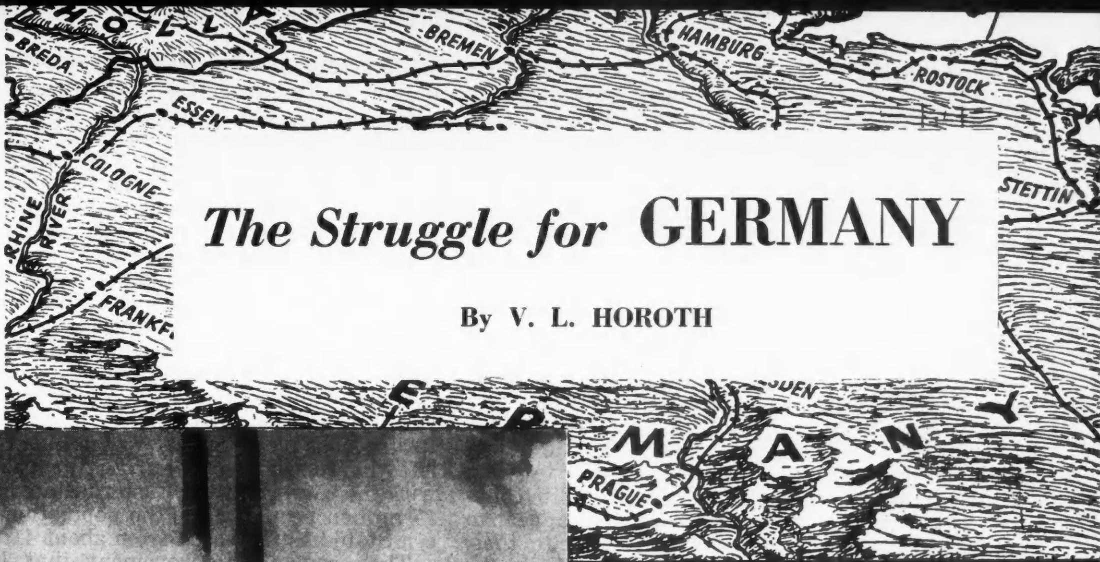
President Truman has stated he wishes somebody would tell him what can be done to halt mounting federal deficits and reverse the trend. The prospective deficit of 5.5 billion dollars will be carved away, he professes to believe, only by a substantial tax increase next year, but congress is likely to have a different answer to the problem posed by the White House: cut spending. The President's solution, plus his recent public addresses, means he will push for the full list of bills which his opposition summarizes as the "Welfare State Plan." His chance of success in that venture now seems nil, but attitudes could change.

Interest on the national debt, alone, now exceeds the entire costs of government asof the time the Roosevelt-Truman operations began in Washington—a time fixed to describe an era rather than to assess blame. The debt would have skyrocketed regardless of the party in power in the necessities of preparing for and waging a war, say the Administration apologists. In any event there cost categories which can't contribute to any economy drive—the debt charges, defense outlays, foreign aid, care of veterans, to name a few—and the issue before the next congress seems squarely to be whether the "Welfare State" shall be set up, Britain's experience notwithstanding.

The fact that both 1950 and 1952 will be election years will work against genuine economy, may serve to make a start on some of the "reform" legislation. The Rankin multi-billion dollar, general pension program will be shouted down; broadened social secuirty may be enacted to prevent the demands of unions from getting totally out of hand; the national health program seems definitely shelved, at least for the early future; congress will go very slow on public works programs, probably authorizing nothing more than minor grants to prepare, and pile, plans.

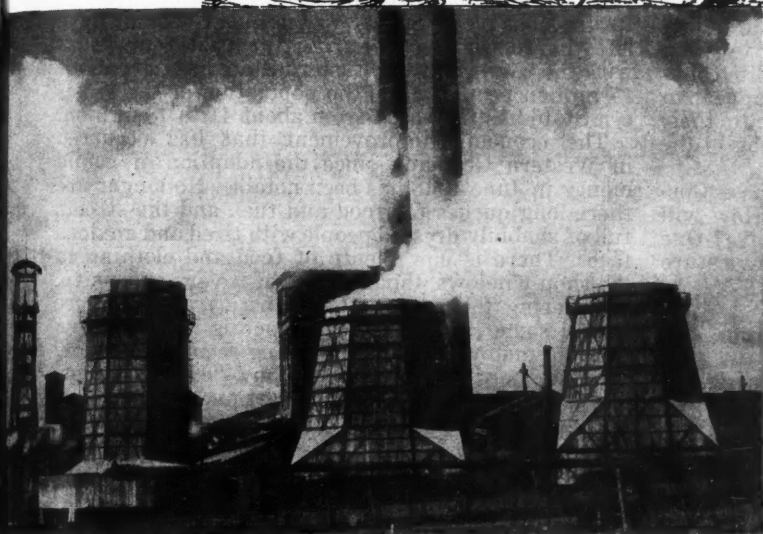
Proposal of the Brookings Institution to shift the entire costs of transport systems to their customers by eliminating federal subsidies, is being examined in the regulatory agencies and on Capitol Hill and may become a topic of lively discussion next year. Major overhauling of congressional policy is advocated, following the lines of the Hoover Commissions recommendations—in fact the same experts worked on both studies. Subsidies, says the Institution "have created waste and favoritism. and substituted government created discrimination for the previous discriminatory practices of private monopoly."

Commerce Secretary Sawyer has written a credo that seems to need nothing more than implementation: "Opportunity rests in a cooperative labor-management designed to reduce costs and increase production, the benefits to be distributed not to capital alone or to labor alone, but to labor, shareholders, management and the public."



The Struggle for GERMANY

By V. L. HOROTH



As this is being written, the Secretary of State, Mr. Acheson has met in Paris with his British and French counterparts, Foreign Ministers Bevin and Schuman. From what is known about the conference, it dealt largely with the problem of Germany.

Many things have happened in that country during the last few months. *The German Federal Republic* (the Western Republic), carved several months ago out of the three western zones and backed by the Democratic West, has now a rival in *the German Democratic Republic* (the Eastern Republic), set up by the Russians last month. The backers are now considering the signing of peace treaties with their respective charges. But before that takes place, Germany's obligations to her former enemies will have to be fixed. The matter of the rise of German nationalism and the ending of the plant dismantling program will also have to be considered.

The economic developments have been no less important. If Western Germany is to be on her own, the heavy gap in her international balance of payment must be bridged by a further expansion of German exports and overall production at home. Where is the flow of German exports to be diverted without interfering with the British and French export programs? There is also the matter of Germany's integration into the Western European economy.

Basically, Messrs, Acheson, Bevin, and Schuman are getting together to iron out the differences in their respective countries' attitudes toward the German problem. They are getting together to demonstrate to the Germans that they cannot be played one against another. This ironing out of differences will not be easy. It will be a question of just how far to go in placating the reviving German nationalism by economic concessions. Too much could ultimately lead, as the French fear, to Western Europe's eventually coming under Western Germany's economic domination. Too little would weaken the present Adenauer Government, and thus repeat the same mistakes that after the First World War brought the downfall of Streseman and Bruening, and the eventual rise of Hitlerism.

Mapping Future Policy

In mapping the future Allied policy toward the West German Republic, the three Western statesmen must also remember that a negative policy would play into the hands of the Russians. The cold war between the East and the West is by no means over, and Germany is still by far the greatest prize.

Despite two disastrous wars, the Germans have shown greater recuperative power and sheer drive to better conditions than any other Western European people. It is only a question of time till their country is restored to its former place as the workshop of Western Europe. With Germany's resources under Moscow's sway, there would be little hope for the survival of a free and democratic Western Europe. On the other hand, if the Western Germans are really convinced that their place is in the West, and as a consequence win over the Eastern Republic, then the Russians will really have no chance in Europe. They will be on the defensive, and even their hold on the satellite countries may weaken in due time as a result of the strong economic and political pull that a prosperous Germany would generate.

The principal development responsible for the German problem entering a new stage was the setting up last month of a puppet regime in the East.

Unlike the Allies in the West, the Russians did not bother with elections. They are to be postponed for one year, presumably to gain more time for the communist-dominated Socialist Unity Party to get a grip on the situation. The regime in fact consists of carefully picked communists and fellow travellers, subservient enough to carry out Moscow's orders. Basically it is the old zonal government with German communists instead of Russian generals as a front.

The Russians endowed the new state with a certain amount of sovereignty, some of which, however, they have already begun to take away again. They have also promised to end all reparations and exploitation, to withdraw the occupation troops, and to refranchize all former Nazis. The Eastern Republic's industries are to be integrated with the industries of Poland and Czechoslovakia in order to speed up the economic development of other satellite countries. Some of these things are bound to appeal to the German nationalists and add weight to their demand for the so-called "Gleichberechtigung"—the equality of rights.

Clearly the Russian objective is to harness German nationalism for their own purposes. How will the Western Allies counter the Russian move? One way is by convincing the Germans that their future lies in cooperation with the West.

Why Western Germany Should Cooperate

At first glance, it appears that convincing the Western Germans should present no great difficulties. It is no exaggeration to say that in the contemporary Europe there are no people more wholeheartedly anti-Russian and anti-communist than the Germans. This claim may be extended even to the Eastern Republic where, thanks to Russian mismanagement and crude exploitation, probably less than 10 per cent of the people are convinced communists. It can be further claimed that the Germans will remain anti-Russian and anti-communist as long as some 8 to 9 million Germans expelled from Silesia, Prussia and Sudetenland continue to provide living evidence that some two-fifths of the prewar German-settled area (including Sudetenland) was expropriated by the Russians, Poles and Czechs.

The extent of America's aid, past and future, should also help to convince the Germans where their preference should lie. As will be seen from the accompanying table, civilian aid for Germany, including Marshall Plan aid, cost this country over $2 billion up to the end of last March. During this year, civilian aid, consisting largely of food and such raw materials as cotton, and ECA appropriations, should come to about $760 million.

U. S. Grants and Credits to Western Germany (Postwar Period, July 1, 1945 through March 31, 1949)

(In millions of dollars)

Grants:	
Civilian supplies (Army)	$1,560
Relief	4
ECA	267
	$1,831
Credits:	
Property credits (sale of surplus goods)	$ 221
Other loans	5
	$ 226
Grand total	$2,057

Source: Office of Business Economics, Clearing Office for Foreign Transactions.

The comparison of the progress made in the West with that of the Russian zone provides still another powerful argument. In 1945, the Russian zone started with many advantages. It was relatively less destroyed and economically better balanced (it could feed itself for one thing) than the over-industrialized and over-populated West. In the four years that have elapsed since, the economy of the Eastern Republic, like that of Czechoslovakia, has deteriorated because of over-exploitation on the part of the Russians. The standard of living is declining and the future looks bleak. Some 3 to 4 million Germans have left the Russian zone during the past four years with the result that the Eastern State has now about 17 million people, while the population of the Western State has increased from about 41 to 48 million.

The economic improvement that has occurred in Western Germany since the adoption of sound money in June 1948 has been notable. No longer are there long queues for food and fuel, and the streets full of shabbily dressed people with tired and anxious faces. There is now plenty of food and clothing in the shop windows, though some of it very expensive, considering the average German's earnings. There is still some rationing, but no one is hungry. New German motor cars are now being seen in considerable numbers. To be able to buy "extra" things, many German workers work overtime on Saturdays and Sundays. The incentive of a free economy has done wonders.

In the period from June 1948 to July 1949, German industrial production rose nearly 50 per cent. The output of certain chemicals and textiles practically doubled, and that of automobiles trebled in the same period. In July 1949, the Germans were making steel at the annual rate of 9.5 million tons—or some 2.5 million tons more than the French, but still some 6 million less than the British.

But all this does not mean that life in Germany is easy. Far from it. Millions of people still live in cellars and ruins, and millions live in overcrowded conditions, with refugees pouring in from the East at the monthly rate of about 5,000. Last summer about one-third of the some 1,200,000 unemployed consisted of refugees. What to do with them and with the workers released from dismantled plants is a nightmare for German authorities, particularly as there are indications that the pace of recovery cannot be kept up. Right or wrong, the Germans argue that the low standard of living among the unemployed and the refugees, and the resulting political and social tensions, are a far greater danger to peace than a modern, efficient industrial capacity.

Foreign Trade Policies

Moreover, the Germans argue, dismantling prevents the country from becoming self-supporting and from contributing to the fullest extent to the Western European recovery. During the first half of this year, German exports moved abroad at the annual rate of about $1,200 million. As will be seen from the accompanying table, this was an increase of about 100 per cent over the 1948 figure—a commendable feat in view of the worldwide shift from a sellers' to a buyers' market. However, there is still

Western Germany: Economic Indicators

	Foreign Trade Exports (000,000 $)	Foreign Trade Imports (000,000 $)	Percent of Imports Paid	Indust. Production 1937=100	Wholesale Prices 1938=100	Cost of Living 1937=100	Currency in Circulation (Billions DM)	Demand Deposits (Billions DM)	Steel Output Tons (000)	Coal Output Tons (000,000)
1937(a)	1,099	956	114	100	......	100	......	......	14,360(a)	139.08
1946	143	643	22	34	......	......	......	......	2,556	55.26
1947	224	708	32	46	......	......	......	......	3,070	72.48
1948	599	1,400	43	60	158	150(b)	3.83(c)	2.52(c)	5,570	88.44
1949										
Jan.	91	128	71	81	192	167	6.17	5.13	677	8.32
Feb.	88	113	77	80	190	168	6.22	5.23	691	8.00
March	86	148	58	90	188	167	6.65	5.42	782	9.03
April	100	155	64	82	186	164	6.79	5.50	729	8.02
May	96	144	66	88	......	161	6.80	5.66	799	8.51
June	103	164	62	86	......	159	6.97	......	777	8.23
July	......	......	......	......	......	159	......	......	805	......

(a)—1936. (b)—June 1948. (c)—July.

a gap of some $500 million between exports and imports, which is at present covered by the ERP grants.

If Germany is to provide a half-way decent standard of living for her people, and at the same time become self-supporting, her exports and imports will have to balance, according to OEEC studies, somewhere near $3.0 billion by 1952. To reach this target, Germany must expand her exports by that time by about $1.7 billion. More than that, her exports will have to consist largely of finished goods, which during the first half of 1949 were exported at the annual rate of about $0.7 billion. The great problem is where to find markets.

Need for European Reintegration

The British, faced with their own export expansion problem, and the French, traditionally suspicious, are quite naturally worried about the German competition. They point out that Germany has many advantages: that she is not burdened by defense budgets, that there are no fixed charges because the devaluation wiped out most of the debt, and that the occupation costs which Germans have to bear are declining. What they forget, however, is that the German worker, considering his skill, gets smaller wage reward than other European workers, and that Germany has accepted the free market economy to a much greater extent than any other Western European country, only Switzerland and Belgium excepted.

The British and French attitude is reflected in their policies on dismantling. The British now apparently have come around to the view that dismantling should end, provided the West German State gives hard and fast guarantees that it will sincerely cooperate and not resume military production. The French are for the continuation of dismantling on the ground that the economic potential of Western Germany was grossly under-estimated. Otherwise, they argue, why should Germany's recovery in respect to industrial production and exports have been so much faster than generally expected?

Both the French and the British would like to see the West German State do more trading with the East German State and with the countries beyond the Iron Curtain. But the East will unquestionably ask for German manufactures, capital goods, and industrial chemicals. How will this square with the Western policy not to sell these goods to the Russian-dominated areas? Moreover, it is not at all certain that the East will have enough goods and the right kind of goods to trade.

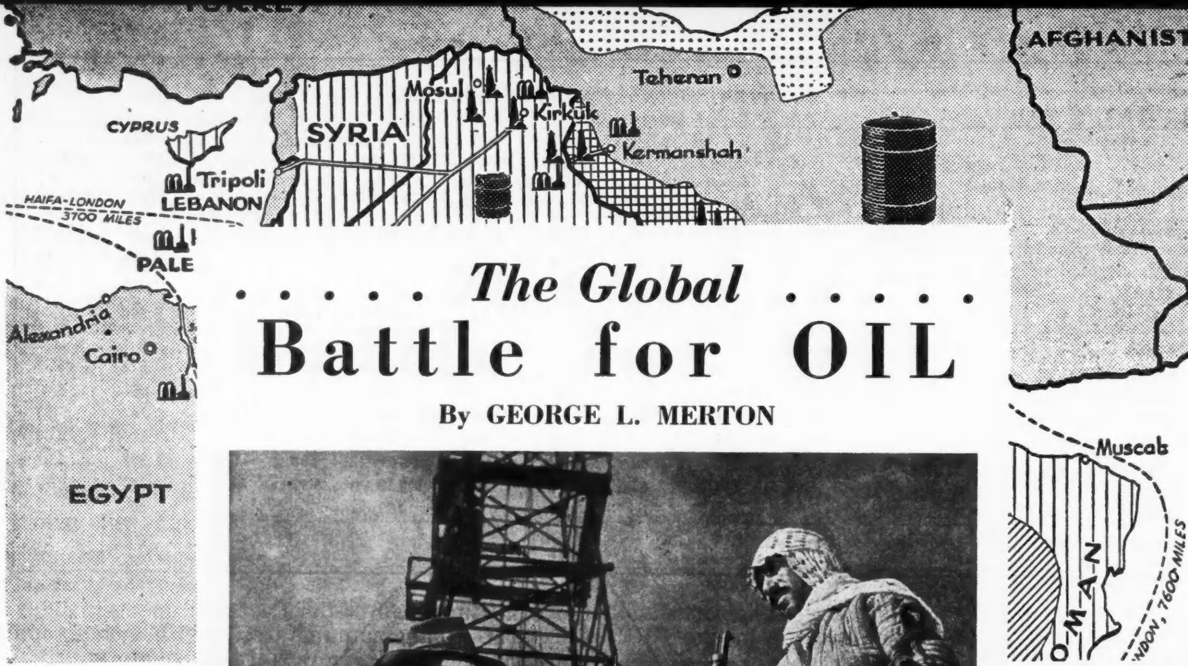
There is no getting away from the fact that more German goods will have to be sold in Latin America, the Middle East, the colonial areas of Africa, and in Western Europe itself. This should not prove at all disadvantageous because, as German exports increase, Germany will become a more lucrative market for the products of other countries. It has always been like this in the past. What is needed really more than anything else is the freeing of European trade, as Mr. Hoffman, the ECA administrator, continues to hammer in, and the reintegration of Western Germany into the Western European economy.

The reintegration of Germany with the rest of Western Europe is the moot point of the Paris discussions. That the Western European countries will make haste slowly is quite understandable. They anticipate that before long, the advantages that the West German State has in its plentiful coal resources, its steel capacity, its low-paid skilled workers, and above all in the adoption of a free-market economy, will assert themselves, restoring to Western Germany a good deal of its former economic importance.

The German Viewpoint

As the Germans see it, the reincorporation of Germany into a greater economic area which includes the colonial countries of Africa, represents the only worthwhile compensation for such Allied controls and prohibitions as the Ruhr authority and the Military Security Board. Thus the present Adenauer Government, which rules the West German State from Bonn and which is composed of convinced democrats and believers in the free enterprise system, will have a good chance of democratizing Germany and even winning over the East German state only if Germany is given equality of status in the Western European family of nations.

The alternative would (*Please turn to page* 199)



..... *The Global* .....
Battle for OIL

By GEORGE L. MERTON

The spectacular experience of our domestic oil industry during the last thirty years in not only keeping supply closely abreast of a vast expansion in demand, but in the face of this, the steady increase of proven reserves has been an astonishing feat. Our present pinnacle of living standards, national income, industrial activity and security in no small degree stems from a petroleum base. Taking a page from the American record, forward looking leaders seeking to rebuild prosperity in debilitated Europe are racing to develop oil resources on every hand, an effort strongly backed by Washington and many of our domestic oil giants.

In the Middle East, particularly, American, British and Dutch oil companies have made strides to tap the rich oil lands of Saudi Arabia, Kuweit, Iran and Iraq and to facilitate shipments of crude oil and refined products to Mediterranean ports. But though progress in this direction has been substantial, it has been relatively limited compared with the final program envisaged. Plans are well formed to spend several billion dollars in the next two or three years to expand the output of Middle East oil and its derivatives. Beneficial as this increased supply may prove to its sponsors as well as to many European economies, the spotlight is now turning to its potential impact on demand-supply factors throughout the world. Combined with the rapidly swelling oil resources of the Western Hemisphere, this additional torrent of petroleum products might create an over-supply with worldwide economic and political implications.

In order to gain a perspective of what may develop within a few years in the battle for oil supremacy, the Economic Cooperation Administration has recently summarized plans by United States oil companies, together with those of British and Dutch concerns, to exploit the lush oil resources of the Middle East and in areas outside of North America and Eastern Europe. The ECA is careful to point out that its findings merely indicate plans rather than definite predictions, for the final outcome may vary sharply from present intentions.

The actual picture that may unfold, however, could shrink substantially in importance, and yet leave ample room for serious problems that might plague many of our domestic oil concerns. On this score, the complete analysis of the ECA's accumulated evidence, now being undertaken by the Office of European Economic Cooperation in Paris, will form a somewhat more dependable basis for estimates. Fears by ECA that refinery expansion plans in the Middle East may have become too ambitious led to its request for a comprehensive "world oil study" by OEEC.

If present plans materialize, British, Dutch and American oil companies expect to increase their crude oil production outside of North America to 4,892,000 barrels daily by 1953, quite aside from greatly increased ouput in the United States, Canada and Mexico. Attainment of the goal indicated would mean a daily output enlarged by about 2 million barrels compared with 1948 production. These preliminary studies of course make no allowance for oil derived from Russia or its satellites, although it can be taken for granted that vigorous steps are being taken in these areas to expand output, and that it may not be too long before offerings from these

sources will influence global competition.

The readily tapped oil fields of the Middle East and the huge proven reserves developed in that section have proved to be a magnet for the experienced oil operators of Britain, the United States and Belgium, all accustomed to large scale programs and with unlimited capital at their disposal. The bonanza opening up for the Arab States has also created the heartiest kind of cooperation from their leaders. The indicated 2 million barrel gain in output of crude oil, however, does not depend entirely on the Middle East for its realization, though this area would predominate in the planning. According to the ECA, the companies in their survey expect to produce about 2.6 million barrels daily in 1953 compared with some 1.1 million barrels in 1948. For the Eastern Hemisphere, aside from Soviet dominated territory, a daily output of nearly 3 million barrels is envisaged, nearly 1.7 million barrels more than last year.

How They Would Share Increased Production

As for the proportionate share of this increased production accruing to oil concerns of different nationality, the showing is about as follows: American companies would produce 1,140,000 barrels per day from their Middle East wells compared with a daily average of 472,000 barrels in 1948. The British oil operators would increase output to 1,333,000 barrels daily from last year's average of around 630,000. Over a period of five years the British-Dutch oil concerns plan to expand ouput of oil at an annual rate of approximately 15%, hoping that this increase would adequately meet their own expected requirements and those of other non-American refineries, besides leaving a substantial surplus for potential export to the United States.

Strides have been made to facilitate the transportation of vast amounts of crude oil and refinery output overland from the various Arab countries to the Mediterranean ports, as the early practice of shipping by sea around the Arabian peninsula has proved very costly. At a total cost of nearly half a billion dollars, new pipe lines will carry many hundreds of thousands of barrels daily over the deserts to various ports.

Already the Iraq Petroleum Corporation has a 16-inch pipe line in operation, conveying 90,000 barrels of oil products or crude to Tripoli in Lebanon. Within about a year, the Trans-Arabian pipe line will be completed, its 30-inch diameter allowing the transportation of 300,000 barrels a day to the Mediterranean coast. Additionally, plans have been made to construct a second pipeline, this one with a 30-inch diameter, from Iraq to the Mediterranean, and and still another with a 34-inch diameter from Abadan on the Persian Gulf cross country to a Mediterranean port. Completion of these two projects is planned by 1953.

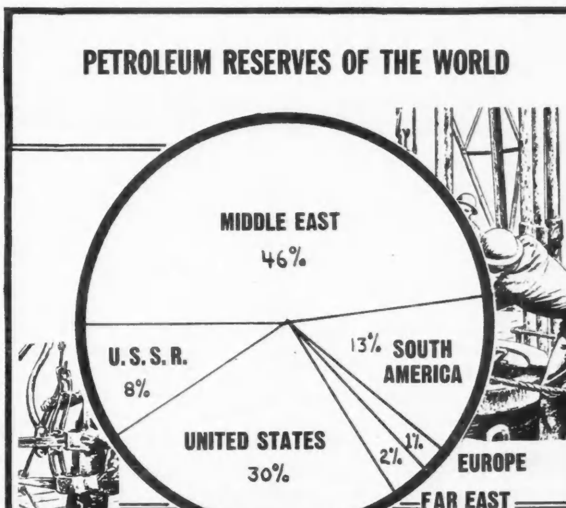
Back of all these large scale undertakings is the primary purpose of accelerating and sustaining the economic recovery of the Marshall Plan countries, with petroleum products providing a major contributing influence. For this reason, the ECA has been foremost in encouraging the development of the Middle East oil industry, but for the same reason it must exert a substantial measure of control if possible. ECA has already agreed to advance almost $21.5 million for several British and French projects towards construction of new refineries that may cost as much as $150 million, the bulk of which will be assumed by the respective private interests or with the aid of their governments.

The main significance of the foregoing plans to increase refinery output across the Atlantic is that, broad as they are, they fall far short of telling the whole story. Many new refineries other than those mentioned are under construction or are in the planning stage, not only in Europe but in some of the Arab states adjacent to supplies of crude oil. By and large, it appears that by 1953, the American, British and Dutch oil concerns hope to process at least 4 million barrels of crude daily in contrast to slightly more than 2.4 million barrels in 1948. While these expectations have been geared to anticipated demand from the Marshall Plan countries on a basis of planned self-sufficiency, considerable concern has been aroused over the prospect that estimated consumption in these areas may have been substantially exaggerated and that by 1952 or 1953, world markets may be doused with a flood of surplus oil products.

Added interest attaches to the picture that is unfolding because even outside of North America and the Middle East, there are indications that production of crude oil will soon be measurably increased. Take the Caribbean and Latin-American areas, for example, where American companies plan to step up their ouput of crude oil to more than 1.9 million barrels daily compared with about 1.65 million barrels in 1948. Not to be outdistanced in the race, British oil concerns plan to step up oil output in the same areas to 720,000 barrels daily from last year's rate of 570,000, while other foreign oil companies plan similar increases on a smaller scale.

Estimated Total Production

In combination, total output of crude oil of the three-nation oil concerns, excluding North America and Eastern Europe, may reach 229 million metric tons (about 7.4 barrels per ton) on an annual basis by 1953, compared with 147.6 million tons in 1948, a rise of almost 60%. Complicating the problem stemming from this prospective increase is the fact that



anticipated imports by the Marshall Plan countries will broadly affect their consumption needs, especially of refined petroleum products. As regards the latter items, present planning indicates that between local production and imports, the OEEC countries may have at their disposal about 1.44 million barrels daily of refined products by 1953, in sharp contrast to hardly more than 900,000 barrels in 1948.

In view of all these optimistic estimates it can readily be seen that the time has come for a showdown to establish a more dependably realistic picture of where the world oil industry may be heading, as well as the amount of funds ECA should or can supply to promote the current program. C. J. Dwyer of ECA's petroleum division has pointed out that considerable duplications may have distorted the over-all figures cited, but that in any event it is up to the countries involved to integrate their programs more closely with those of United States oil producers. When the OEEC completes its study and all the interested nations go into a huddle, some constructive steps will have to be taken to temper the present apparent over-enthusiasm of the large competitors in the field. Otherwise, not only our domestic oil industry but those in other nations may be inviting a lot of potentially avoidable trouble within a relatively short space of time.

Much-Wanted Source of Dollar Earnings

It can readily be recognized that the British foresee in their projected large increase in production a fine opportunity to expand their inflow of American dollars, especially now that devaluation of the pound has enhanced their export potentials to the United States. In 1948, American subsidiaries in the Middle East exported practically all of the 520,000 barrels daily shipped from that area to this side of the Atlantic or to Eastern Europe. According to plans submitted, total shipments to the United States of crude oil may reach 808,000 barrels by 1952 and exceed 930,000 barrels by 1953. While American controlled companies will continue to capture the lions' share of any such increment, the British-Dutch oil concerns envisage lifting their shipments to this country to 126,000 barrels daily in 1953 compared with a modest 14,000 barrels last year, aside from prospective delivery of 166,000 barrels of refined oil products to the United States.

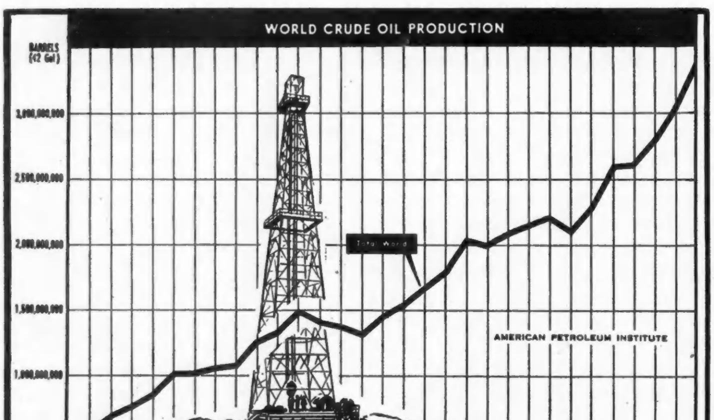
While the ECA report made no attempt to include estimates of supply and demand in North America, this necessarily omitted the most important element in the equation, for it is obvious that all the foreign oil operators count heavily on exploiting our home market to the fullest extent Though no statistics are available to clarify the picture for the next few years in the domestic field, a brief summary of production and consumption for a number of years past in the United States may help to enlighten our readers.

Where in 1918, 203,375 producing oil wells had an annual ouput of about 356 million barrels, the score by 1948 had risen to 435,000 wells producing more than 2 billion barrels. Meanwhile proved reserves of crude oil rose from 6.2 billion barrels in 1918 to 23.2 billion last year, with record exploratory programs likely to further expand these reserves. Refining capacity in the United States in the same span rose from 1.1 million barrels daily to more than 6.3 million, of which about 2.1 million barrels accounted for the gain since Pearl Harbor alone. Annual domestic demand for all liquid petroleum in the same period rose from 374 million barrels thirty years ago to a level of more than 2.1 billion barrels in 1948, somewhat exceeding production of crude oil for the fourth consecutive year.

These figures, though, make no allowance for annual exports of all liquid petroleum. For more than a quarter of a century past, our domestic oil concerns have unfailingly exported not less than 100 million barrels annually, shipping a peak of 207.6 million barrels in war-active 1944. Since then the annual exports have declined steadily to 134.9 million barrels in 1948, hardly more than the showing for 1936. This downtrend reflects increased purchases of oil products by foreign countries from Latin-America and the Middle East, a process that now promises to expand substantially.

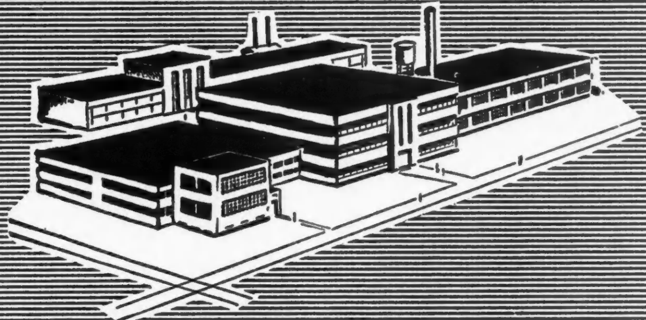
The Import Outlook

To fill the gap between domestic supply and demand plus export requirements, our oil concerns have had to import sizable quantities of crude oil from foreign sources, though were it not for the price factor, available supplies at home would make us entirely self-sufficient domestically. But military considerations that suggest conserving at least 1 million barrels of daily potential production alter the picture considerably at present. The main problem at present is that though a number of our large domestic oil concerns will continue to supply most of our import requirements, there are a great many others that are not in such a favorable position, and all face the prospect of highly competitive conditions when the vast development program overseas nears completion.



Because of the coming realignment of world oil trade there is small wonder that numerous domestic oil concerns have become disturbed over the outlooks for beyond doubt a drive will get underway to swell sales of oil products from foreign (*Please turn to page* 199)

Companies Paying Progressively HIGHER DIVIDENDS



SELECTED BY OUR STAFF

Investors endeavoring to select stocks that give promise of not only steady income but eventual appreciation as well, might go a step further by narrowing their search to companies that have rather consistently raised their dividends over a considerable period. A record such as this, especially where potentials for an extension of the trend present themselves, should distinctly enhance the prospect for satisfactory appreciation of share prices.

It is surprising how many concerns are in this category, based on steady dividend improvements since 1945. This very fact, though, invites close discrimination because of abnormally widespread prosperity in this period, with many industries and even their weaker components having larger earnings to disburse than may be available under highly competitive conditions. It is essential, accordingly, to eliminate certain groups, marginal enterprises and those with less favorable prospects for continued growth, regardless of their postwar dividend records to date, and to confine selections to sound situations with promising future potentials.

With these qualifications in mind, we have picked four representatives of carefully chosen industries with above average records in good times and lean, and marked with growth potentials much in line with those of the national economy. A strong financial status has been a necessary requisite in our decisions.

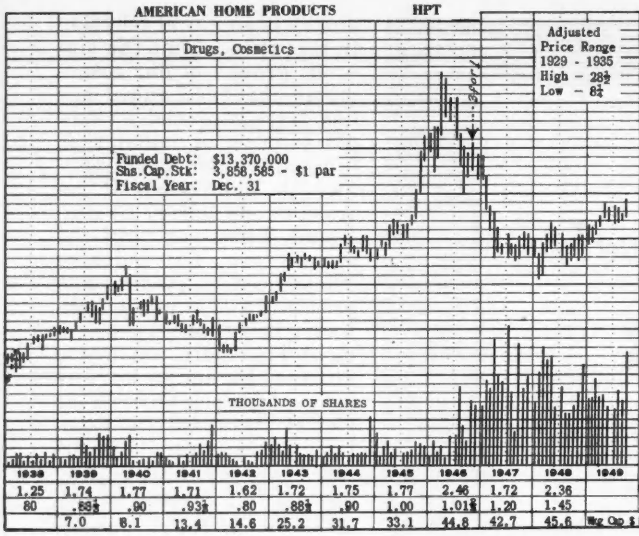
Our readers will doubtless agree that the oil industry is a natural selection in this study. That the vigorous growth of our economy in this mechanical age has largely hinged on ample supplies of liquid fuel, lubricants, and the innumerable byproducts of petroleum can hardly be contested. Unless or until the atomic era for industry commences, suppliers and processors of crude oil enjoying large proven reserves have a soundly predicated future. From numerous strong oil concerns, we have picked Barnsdall Oil Company not only for its favorable long term operating record and present sound position, but because it has shared its increasing prosperity progressively with its stockholders.

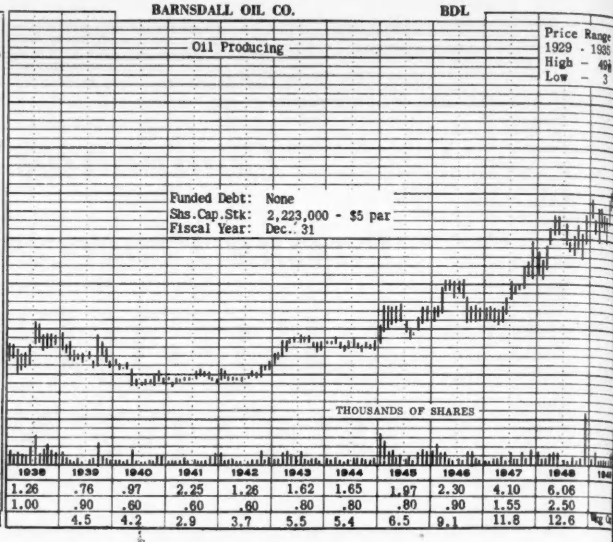
Aided by worldwide emphasis on health problems, increased national income and the fruits of intensive research, producers of medicinal chemicals, related proprietary items and special foods have forged ahead impressively in postwar, preceded by a long period of well sustained growth. Little study is required to conclude that the growth of this industry has far from reached maturity. Outstanding progress in this specialized field has been achieved by American Home Products Corporation, based partly on established reputation and in part due to acquisition of numerous other firms. While earnings have not risen in every year since 1945, the general trend has been upward and dividends have increased regularly.

Our third choice, Mathieson Chemical Corporation, is a member of an industry known for above average earnings stability and distinct growth potentials. This company has been a regular dividend payer for more than twenty years, and recent output diversification should further enhance the growth factors inherent in chemical operations. In each year since 1945, earnings have risen markedly with corresponding benefit to stockholders.

Our final choice, selected from the vigorous rayon industry, is Industrial Rayon Corporation, a company with sound fundamentals and an outstanding growth record which holds every promise of continuing despite the temporary earning decline earlier in the year. This concern has been foremost in the development of improved processes for manufacturing rayon yarn for a constantly expanding group of textile weavers, while also utilizing its high quality yarn to produce fabrics of its own.

On the following pages we present statistical data and brief comments on each of the companies selected. For timing of purchases, we suggest that readers follow the market advice of A. T. Miller appearing regularly in each issue of the Magazine.





AMERICAN HOME PRODUCTS CORPORATION

BUSINESS: Company is one of the leading producers of pharmaceutical, nutritional and vitamin items. Manufacture of proprietary drugs, food products, dentifrices and cosmetics lend diversification to output.

OUTLOOK: Although supply has caught up with demand for practically all lines handled by this concern, thus increasing competition, American Home Products' strongly entrenched reputation with consumers, the medical profession and distributors, aided by aggressive promotional policies, seem likely to extend the company's outstanding record for sustained growth. Operations in the first nine months of 1949 support this optimism. Volume of $15.2 million through September 30 was about 20% above the corresponding period last year, while net earnings of $2.08 per share compared with $1.80. The outlook is enhanced by the increasing world demand for improved products in combatting disease, malnutrition and poor sanitation. The company's extensive research activities and emphasis on quality have consistently kept it to the front in expanding its market potentials and evidently have broadened earnings possibilities. Although operating costs have advanced, efficient management has established economies that should sustain earnings at a stable level and gradually expand them through larger sales over the long term. This is rather clearly indicated by interim results in 1949, a period in which selling prices for many of the company's important products were reduced.

DIVIDENDS: For 23 consecutive years, American Home Products has paid monthly dividends without a break, in recent years supplementing a conservative monthly rate of 10 cents per share with a year-end extra. In 1945 and 1946, this brought the total to $1 a share, in 1947 to $1.20, in 1948 to $1.45, while a year-end extra of 50 cents just declared brings the total for 1949 to $1.70 per share.

MARKET ACTION: Recent price—29⅞, high for 1949 to-date and compares with a low of 24¼. Based on 1949 dividends, the current yield is 5.7%.

COMPARATIVE BALANCE SHEET ITEMS

	1940	December 31, 1948 (000 omitted)	Change
ASSETS			
Cash	$ 2,783	$11,453	+$ 8,670
Marketable Securities	29	7,652	+ 7,623
Receivables, Net	3,163	12,260	+ 9,097
Inventories	6,542	26,736	+ 20,194
Other Current Assets	97	1,068	+ 971
TOTAL CURRENT ASSETS	12,614	59,169	+ 46,555
Plant and Equipment	5,960	33,877	+ 27,917
Less Depreciation	1,739	10,888	+ 9,149
Net Property	4,221	22,989	+ 18,768
Investments	126	1,640	+ 1,514
Other Assets	331	708	+ 377
TOTAL ASSETS	$17,292	$84,506	+$67,214
LIABILITIES			
Accounts Payable	$ 2,563	$ 7,565	+$ 5,002
Accrued Taxes	1,812	5,967	+ 4,155
Other Current Liabilities	52	....	— 52
TOTAL CURRENT LIABILITIES	4,427	13,532	+ 9,105
Reserves	1,615	2,135	+ 520
Other Liabilities	....	1,350	+ 1,350
Long Term Debt	2,483	13,370	+ 10,887
Common Stock	807	3,859	+ 3,052
Surplus	7,960	50,260	+ 42,300
TOTAL LIABILITIES	$17,292	$84,506	+$67,214
WORKING CAPITAL	$ 8,187	$45,637	+$37,450
CURRENT RATIO	2.8	4.3	+ 1.5

BARNSDALL OIL COMPANY

BUSINESS: Production and sale of crude oil is the principal activity of Barnsdall Oil Company, though natural gas and natural gasoline are supplementary. At the end of 1948, 1941 wells were in operation. Last April proven reserves of oil were more than 160 million barrels and proven reserves of natural gas about 800 billion cubic feet.

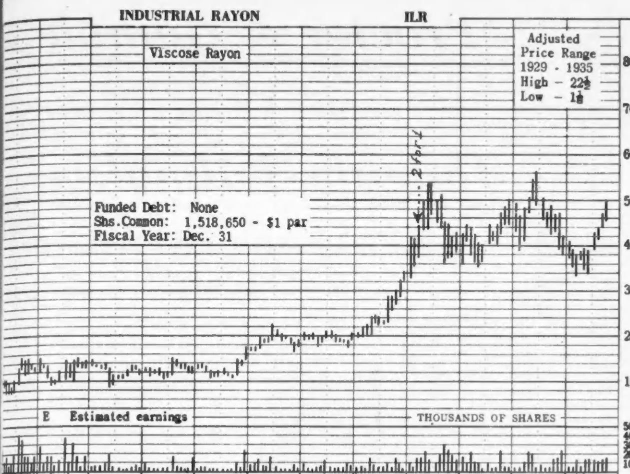
OUTLOOK: It is believed that demand for most oil products will strengthen substantially in coming months and that prices may recover moderately from their current slightly reduced level. Over the longer term, Barnsdall Oil seems sure to benefit from its large proven reserves of crude oil and its success in expanding these faster than withdrawals. Its leases on more than 682,000 acres of oil land in 20 states, the bulk of which have not yet been drilled, create a promising outlook picture. Jointly with Honolulu Oil Corporation and Seaboard Oil Company, Barnsdall has also acquired rights on more than 1.2 million acres in Alberta, Canada, where two high-producing wells were brought in late this spring. Volume potentials for natural gas are enhanced by a long term contract with Tennessee Gas Transmission Company for a minimum of 15 million cubic feet daily. An agreed consolidation with Ogden Corporation (large stockholder in Barnsdall Oil Corp.), retaining the Barnsdall name, involves a new $40 million loan from a group of insurance companies and banks. Utilization of these funds for an extensive development program should enable the company to expand production of crude oil on a very large scale and should prove beneficial to shareholders over the long term.

DIVIDENDS: Barnsdall Oil's unbroken dividend record goes back 14 years. Though the company in recent years has retained a large portion of earnings, shareholders have received increasingly liberal dividends as follows: 1945—80 cents a share, 1946—90 cents, 1947—$1.55, 1948—$2.50. This year through September 3, $2.75 a share has been paid.

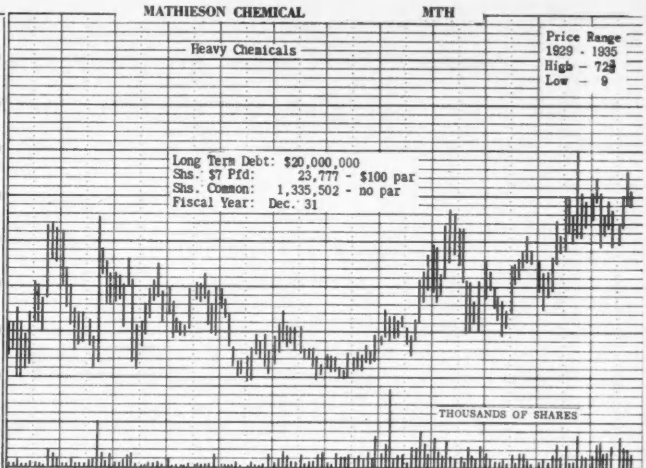
MARKET ACTION: Recent price—52½, a high for the current year and compared with a 1949 low of 39¾. The indicated current yield is around 5.8%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	June 30 1949 (000 omitted)	Change
ASSETS			
Cash	$ 2,615	$10,167	+$ 7,552
Marketable Securities	....	3,789	+ 3,789
Receivables, Net	1,544	5,926	+ 4,382
Inventories	1,361	2,449	+ 1,088
TOTAL CURRENT ASSETS	5,520	22,331	+ 16,811
Plant and Equipment	34,888	56,228	+ 21,340
Less Depreciation	21,990	26,880	+ 4,890
Net Property	12,898	29,348	+ 16,450
Investments	3,029	208	— 2,821
Other Assets	925	248	— 677
TOTAL ASSETS	$22,372	$52,135	+$29,763
LIABILITIES			
Accounts Payable	$ 661	$ 5,601	+$ 4,940
Accrued Taxes	507	3,989	+ 3,482
Accrued Expenses	112	102	— 10
TOTAL CURRENT LIABILITIES	1,280	9,692	+ 8,412
Other Liabilities	412	50	— 362
Bank Loans	7,500	—	— 7,500
Common Stock	11,255	11,116	— 139
Surplus	1,925	31,277	+ 29,352
TOTAL LIABILITIES	$22,372	$52,135	+$29,763
WORKING CAPITAL	$ 4,240	$12,639	+$ 8,399
CURRENT RATIO	4.3	2.3	— 2.0



	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	
	.12	.89	1.57	1.52	1.30	1.08	.94	1.31	5.66	8.86	8.31	E 6.25	EARN.
	.12½	.37½	1.00	1.25	1.25	1.00	1.00	1.00	1.62½	2.50	3.00		DIV.
		10.3	6.6	7.4	7.9	7.5	3.6	13.9	11.0	19.7	27.8	Wkg.Cap.$ Mil.	



	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.	1.01	1.12	1.72	1.90	1.26	1.34	1.40	1.19	2.25	3.34	5.61	
DIV.	1.50	1.50	1.50	1.75	1.12½	1.00	1.00	1.00	1.25	1.62½	1.75	
Wkg.Cap.$ Mil.		3.7	4.2	4.4	5.5	7.2	9.1	10.3	7.7	.4	5.2	

INDUSTRIAL RAYON CORPORATION

BUSINESS: Company is one of the largest producers of viscose rayon filament yarns, besides knitting numerous fabrics from a portion of its yarn output. Its patented process of manufacturing yarn by a continuous method has also expanded earnings from the sale of rights. Output of tire cords is substantial.

OUTLOOK: Industrial Rayon Corporation's main activity, the production of rayon yarn, has an especially encouraging outlook because supply for years past has been insufficient to meet a constantly expanding demand. Uncertainties in the current year, to be sure, have caused a slight downtrend in volume, but that this is considered only a temporary matter by the management is shown by steps under way to expand further the company's facilities. The continuous process of producing yarn establishes cost savings that give the company a strong competitive position. Similarly, an advantage is gained for Industrial Rayon's knitted fabrics, enabling the company to produce and distribute over 50% of the market requirements in this field, with customers totalling more than six thousand. The demand for yarn is so stable that, despite seasonal variations, the company should continue to benefit from steady production schedules. While net earnings of $4.26 per share in the first nine months of 1949 compared with $5.87 in the comparable period of 1948, prospects of increased volume in the final quarter promise to narrow the gap somewhat for the full year. Indications are strong that over an extended term, the earnings of this concern will continue to improve, although interim results may vary because of transient factors.

DIVIDENDS: For nineteen years, shareholders have received dividends regularly, in the past four years as follows: 1945—$1 per share, 1946—$1.87½, 1947—$2.50, 1948—$3 a share. Quarterly dividends of 75 cents a share have been maintained through September 30, 1949, and a 5% stock dividend was paid last January.

MARKET ACTION: Recent price—49⅝, close to the 1949 high of 50. Low for the current year was 33¼. The current yield is 6%.

COMPARATIVE BALANCE SHEET ITEMS

	1940	December 31, 1948 (ooo omitted)	Change
ASSETS			
Cash	$ 5,632	$ 9,894	+$ 4,262
Marketable Securities	....	20,211	+ 20,211
Receivables, Net	1,538	5,081	+ 3,543
Inventories	1,424	4,772	+ 3,348
TOTAL CURRENT ASSETS	8,594	39,958	+ 31,364
Plant and Equipment	25,915	46,395	+ 20,480
Less Depreciation	7,183	29,390	+ 22,207
Net Property	18,732	17,005	— 1,727
Other Assets	214	720	+ 506
TOTAL ASSETS	$27,540	$57,683	+$30,143
LIABILITIES			
Accounts Payable	$ 957	$ 2,299	+$ 1,342
Accrued Taxes	773	9,388	+ 8,615
Other Current Liabilities	214	450	+ 236
TOTAL CURRENT LIABILITIES	1,944	12,137	+ 10,193
Other Assets	....	465	+ 465
Long Term Debt	4,500	....	— 4,500
Common Stock	10,124	17,897	+ 7,773
Surplus	10,972	27,184	+ 16,212
TOTAL LIABILITIES	$27,540	$57,683	+$30,143
WORKING CAPITAL	$ 6,650	$27,821	+$21,171
CURRENT RATIO	4.4	3.2	— 1.2

MATHIESON CHEMICAL CORPORATION

BUSINESS: Company (formerly Mathieson Alkali Works) is the fifth largest producer of alkalis in the United States. Its principal products are soda ash, caustic soda, chlorine and salt cake.

OUTLOOK: Mathieson Chemical Corporation's specialties are a primary essential in so many industries, such as textiles, paper, glass, chemicals and oil refining, that as long as these important groups continue high level activity, the company is virtually assured of good business. Operations are considerably stabilized by ability to secure many orders on an annual contract basis, enhancing opportunities for well maintained schedules. Postwar outlays of more than $30 million for expansion and modernization, including acquisition of a large facility in Louisiana for producing not only the company's main specialties but synthetic nitrogen and ammonia oxides, have expanded over-all output and earnings potentials. Volume gains should be further aided by purchase of Southern Acid & Sulphur Corporation and Standard Phosphate & Acid works last April. Good progress in the current year is shown by results for the first nine months, with net income of $5.1 million comparing with $3.2 million for the same 1948 period, or $3.82 per share on 1,327,727 shares now outstanding after issuance of about 500,000 shares for purchase of the latest two concerns acquired. Included in these earnings are those of the two new units since April only. Had their net for the full nine months been included, earnings of Mathieson Chemical would have been $4.68 per share.

DIVIDENDS: Company has paid dividends without interruption since 1926, with a consistent uptrend in the last four years and another increase indicated for 1949. Payments have been: 1945—$1, 1946—$1.25, 1947—$1.62½, 1948—$1.75. In the first quarters of 1949, 50 cents a share was paid in each period, indicating that total for the year will be at least $2.

MARKET ACTION: Recent price—40½ compared with a 1949 range of high—42¾, low—34⅜. The current indicated yield is around 5%.

COMPARATIVE BALANCE SHEET ITEMS

	1940	December 31, 1948 (ooo omitted)	Change
ASSETS			
Cash	$ 1,876	$ 8,083	+$ 6,207
Marketable Securities	....	2,001	+ 2,001
Receivables, Net	1,338	5,142	+ 3,804
Inventories	2,127	9,508	+ 7,381
TOTAL CURRENT ASSETS	5,341	24,734	+ 19,393
Plant and Equipment, Gross	36,168	95,342	+ 59,174
Investments	1,055	2,097	+ 1,042
Other Assets	784	1,715	+ 931
TOTAL ASSETS	$43,348	$123,888	+ 80,540
LIABILITIES			
Accounts Payable	$ 478	$ 2,401	+$ 1,923
Accruals	653	5,462	+ 4,809
TOTAL CURRENT LIABILITIES	1,131	7,863	+ 6,732
Reserves, Deprec., Obsol. & Depletion	17,894	42,735	+ 24,841
Reserves, Contingencies and Operations	403	1,948	+ 1,545
Other Liabilities	249	267	+ 18
Long Term Debt	....	21,600	+ 21,600
Preferred Stock	2,378	2,378	....
Common Stock	15,464	24,880	+ 9,416
Surplus	5,829	22,217	+ 16,388
TOTAL LIABILITIES	$43,348	$123,888	+$80,540
WORKING CAPITAL	$ 4,210	$ 16,871	+$12,661
CURRENT RATIO	4.7	3.1	— 1.6

Procter & Gamble
VS.
Colgate-Palmolive

A COMPARATIVE INVESTMENT AUDIT

★ ★ ★

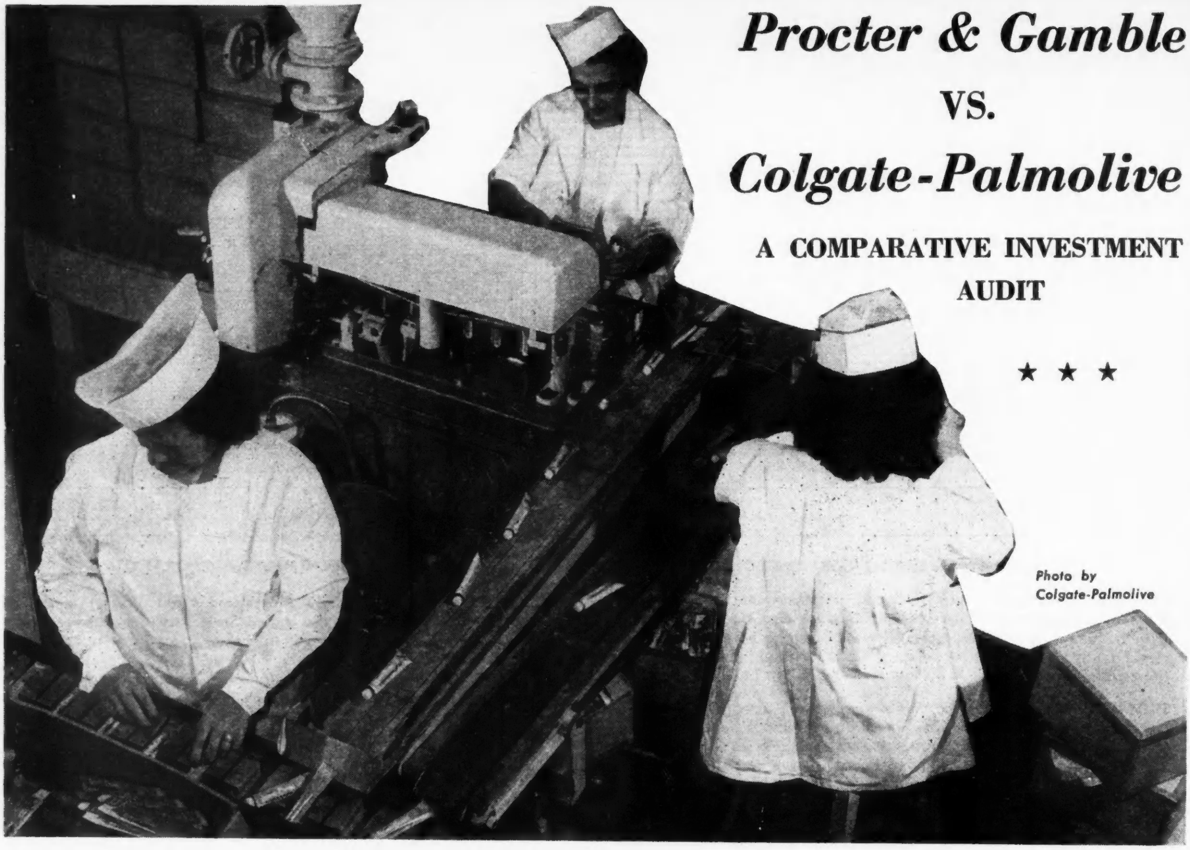


Photo by Colgate-Palmolive

By STANLEY DEVLIN

The country's two leading soap manufacturers present an interesting study. Procter & Gamble and Colgate-Palmolive-Peet Company, together with the British controlled Lever Bros., control upward of 90 per cent of domestic soap production. Some 250 other manufacturers listed by the Bureau of Census account for a comparatively small proportion. It seems strange that an industry so essential to all mankind, so long established and so simple has not attracted a greater number of larger concerns.

The two concerns under discussion here frequently have been compared in analytical studies, because in many respects their operations are rather similar and at times one or the other has gained decided market preference. A brief examination of accompanying statistical information and charts will show that the same general economic conditions in recent years, for example, have been reflected with differing results. It may be surmised that because Colgate has registered the greater progress in the last decade in earnings and in market appreciation, it deserves to be regarded as the more attractive. On the other hand, friends of Procter & Gamble well may argue that this company has been more conservatively managed and that intrinsic worth of its stock has not been generally appreciated; hence, that it is the better value.

In other studies, these two stocks frequently have been contrasted. In this discussion the writer intends to call attention to similarities as well as differences and to suggest that both companies have qualities deserving consideration. There appears to be merit in the suggestion that P. & G. may have a greater degree of "hidden assets" than its smaller competitor, and this view may help explain recent strength in the shares coincident with intimations of possible consideration of a stock split. These rumors proved true. Directors have just recommended to shareholders a 1½ for one split of the common stock and set December 20 for a special meeting to act on the proposal. Stockholders also will be asked to increase the number of authorized shares of common no par value stock from 7,500,000 to 15 million shares. Currently 6,410,000 shares of common are outstanding.

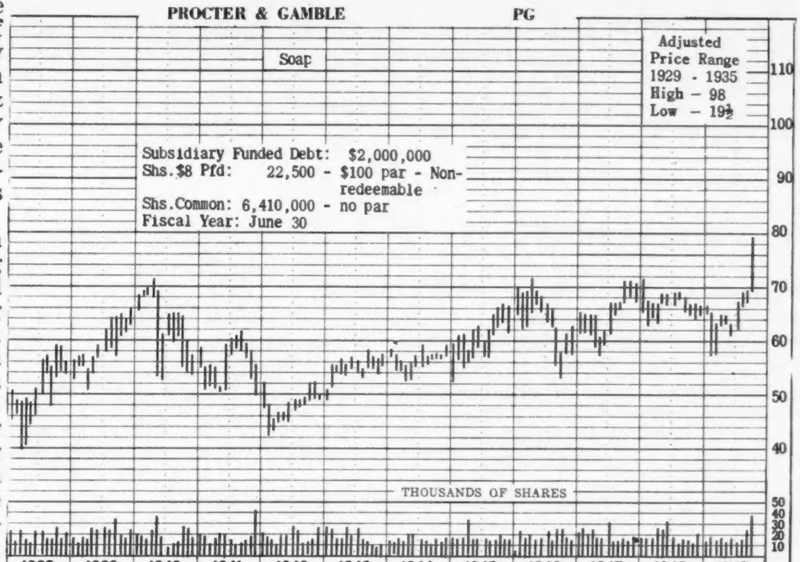
Industry Factors

In comparing these two companies it is necessary to examine some of the aspects of the industry they represent and to understand the importance of commodity price fluctuations as a factor governing profit margins. Such a background will enable the investor to better understand why current economic conditions appear to provide a favorable environment for the industry.

Soap had its origin many hundreds of years ago. No one knows exactly how it was discovered, although history records regular production of the cleansing product as far back as the first century. Sapo Hill near Rome is credited with having been the first known source of what has become a basic necessity. Here, according to legend, crude altars had been constructed for sacrifices and fat rendered from animals burned on the altars accumulated along with large quantities of ash. These basic ingredients — tallow and alkalis—apparently mixed with heavy clay in the

rainy season to form a sort of crude soap. Women discovered that use of this substance eased the "Monday washday" burden. Calling attention to this possible source, Procter & Gamble attaches significance to it by reminding us that the name of the hill, Sapo, has left an imprint on European languages in the various translations of the word soap.

Science has gone a long way in succeeding centuries in perfecting cleansing agents. Soap is credited with having made an outstanding contribution to promotion of health in checking disease. Regularity in cleansing the body has become a fundamental factor in keeping well. Dr. Florence L. Meredith, leading hygiene expert, is quoted as having said: "No other single article can compete with soap in respect to the amount of sickness and death prevented by its use."



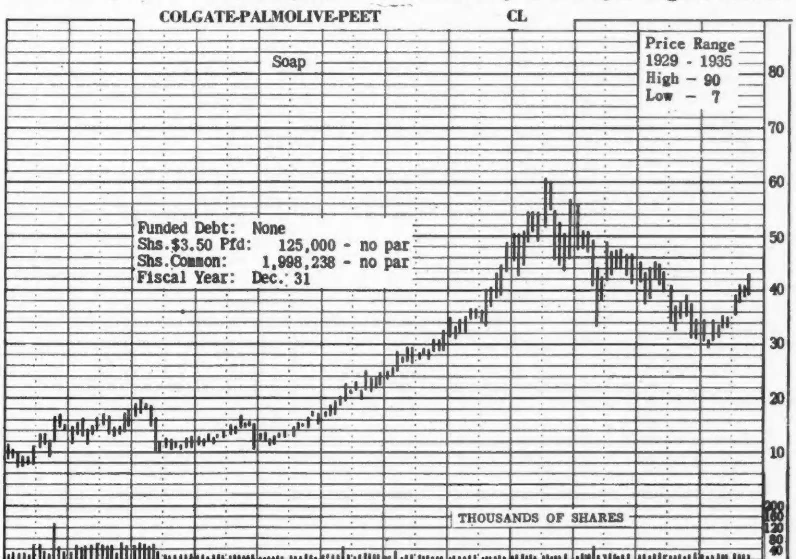
	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.	2.59	3.60	4.37	4.21	3.23	3.13	2.97	2.95	3.29	5.11	6.59	4.44
DIV.	2.00	2.00	3.00	3.00	2.00	2.00	2.25	2.00	2.00	4.00	4.00	
Wkg Cap $ Mil		71.6	71.0	71.9	73.4	89.0	96.3	92.5	94.9	114.6	143.1	

Soap is widely used in industry, especially as a lubricant. It long has been used in the rubber tire industry to prevent large slabs of crude rubber from becoming stuck together. When scientists turned to production of synthetic rubber during the war, it was found that polymerization of ingredients could be facilitated with use of soap. Principal components are fused in large vats of soapy solution with the result that synthetic rubber "grows" in millionth-of-an-inch spheres between layers of soap molecules. Wires drawn through dies are first soaped so that friction is reduced and the metal may be polished. Aluminum foil rolled for packaging cigarettes, gum, etc., is made with soap as a lubricant.

The great market for soap, however, is the home. Demand normally follows the trend of population and national income. Statistical calculations indicate that for every $10 billion change in national income, there should be a corresponding fluctuation of about $22.5 million in soap sales. Consumption was retarded during the war and fell below the historical ratio, but sharp increases in 1947 and 1948 kept pace with the rise in purchasing power. Tonnage this year compares favorably with 1948 figures, but dollar sales reflect price reductions. Consumption has been stimulated by the popularity of household washing machines and coin-operated washers in apartment houses and stores. These appliances account in large measure for a significant increase in sales of washing powders.

From the manufacturer's standpoint it is important that demand for such powders has shifted from the commercial laundry, which purchases its requirements in bulk, to the home, where a correspondingly larger volume of soap is purchased in small packages affording substantially larger profit margins for the producer. Only when it is realized that washing machine sales have increased remarkably since the war does one appreciate the contribution to earning power of major soap companies made by the home laundry.

In appraising prospects for soap companies, as mentioned earlier, allowance must be made for commodity price fluctuations. This is readily understood when consideration is given to the fact that tallow accounts for some 70 per cent of fats and oils utilized and these two components represent about two-thirds of raw materials required. Prices of fats and oils ordinarily do not fluctuate extensively, but in recent years have traversed a wide range because of excessive war demands. In the case of Procter & Gamble, cottonseed oil price fluctuations must be taken into account, for this commodity is a major ingredient in



	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.	1.77	2.67	1.84	3.09	2.46	3.11	3.30	3.34	7.14	9.30	3.56	
DIV.	.25	1.00	1.00	1.50	1.25	1.50	1.75	2.00	4.25	5.00	3.00	
Wkg Cap $ Mil		33.0	31.5	35.6	40.5	48.3	43.4	47.1	47.5	53.6	45.8	

shortening. Apprehension over possible adverse effects of commodity price declines contributed to weakness in shares of Procter & Gamble and Colgate-Palmolive in the last year or so, but fears appear to have been exaggerated, judged by latest financial results. Hence, now that quotations of essential ingredients have been deflated, it is difficult to see how threat of inventory losses can prove serious.

Recent Price Changes In Raw Materials

Although some materials still are relatively high priced, it is noteworthy that tallow recently has been selling at about its pre-war average quotation of 6½ cents a pound. This represents a substantial drop from the peak two or three years ago at around 27 cents and is not far above the summer low of 5¾ cents. Cocoanut oil, another principal raw material, has displayed a steadier tendency recently at around 12 to 13 cents a pound, which compares with 22 cents a year ago. Before the war, the quotation averaged about half this price.

On the favorable side is the fact that domestic production of tallow now is about double the prewar figure, whereas expansion in demand for detergents has reduced soap manufacturers' dependence on tallow, Hence, the supply-demand ratio appears to suggest pressure on prices. Moreover, present indications point to probable expansion in supply of cocoanut oil, so that price tendencies of this item also may point downward. Inasmuch as soap producers suffered no severe inventory troubles in the decline from the summer of 1948 to 1949 in tallow of more than 10 cents a pound, it is difficult to see why management should be unduly alarmed over the threat of a possible drop of another two or three cents. Cocoanut oil declined almost 10 cents a pound in the year and a further recession of a few cents scarcely could cause undue hardship on manufacturers.

On the contrary, profit margins have widened in spite of increased advertising appropriations and other costs. Price reductions, development of new products and promotional efforts accounted for higher consumption of soap products, but reduction in costs of materials more than counterbalanced lower selling prices. Indications point to continuance of these trends. Basic raw materials promise to remain abundant and prices seem unlikely to advance more than nominally unless there should be unforeseen political developments. Manufacturing efficiency continues to make headway in counteracting production costs. Results should find reflection in favorable profit margins.

Now looking more closely at financial aspects of these two companies to appraise their similarities and differences, we note that in the fiscal year ended June 30, 1949. Procter & Gamble experienced a considerable decline in dollar sales and net profit, just as in 1948 Colgate-Palmolive-Peet suffered a similar setback for its fiscal year ended December 31. The trend now appears to have been reversed with both companies recording favorable results in the September quarter as result of a spurt in sales at a time when it was possible to benefit from low raw materials costs.

Comparative Statistical Summary

	Procter & Gamble	Colgate-Palmolive-Peet
CAPITALIZATION: As of	6/30/49	6/30/49
Common Stock (number of shares)	6,410,000	1,997,916
Preferred Stock (number of shares)	22,500(a)	125,000(b)
INCOME ACCOUNT: For year ended	6/30/49	12/31/48
Net Sales (000 omitted)	$696,670	$220,347
Net Sales Per Share	$108.68	$110.28
Operating Margin	6.4%	3.9%
Pre-Tax Net Income (000 omitted)	$ 44,818	$ 10,807
Pre-Tax Net Margin	6.4%	4.8%
Net Income (000 omitted)	$ 28,655	$ 7,557
Net Profit Margin	4.1%	3.4%
Net Per Share	$ 4.44	$ 3.56
INTERIM REPORTS: As of	3 mo. end. 9/30/49	9 mo. end. 9/30/49
Net Sales (000 omitted)	$ Na	$161,186
Operating Margin	Na	7.9%
Net Income (000 omitted)	$ 19,737	$ 7,881
Net Profit Margin	Na	4.8%
Net Per Share	$ 3.07	$ 3.78
EARNINGS & DIVIDEND RECORD (per share)		
10 Year Average Earnings 1939-48	$ 3.94	$ 4.19
1948 Dividend	$ 4.00	$ 3.00
10 Year Average Dividend 1939-48	$ 2.57	$ 2.22
BALANCE SHEET (000 omitted): As of	6/30/49	9/30/49
Cash and Securities	$ 47,731	$ 28,014
Cash and Securities as % of Current Assets	28.8%	43.2%
Inventories	$ 85,306	$ 19,699
Inventories as % of Current Assets	51.5%	30.4%
Total Current Assets	$165,434	$ 64,774
Total Current Liabilities	$ 39,948	$ 16,673
Net Working Capital	$125,486	$ 41,497
Current Ratio	4.1	3.8
Fixed Assets, Net	$119,134	$ 33,712
Reserve for inventory price decline	$ 16,000	$ 2,100
Reserve for contingencies	$ 1,000	....
Total Assets	$294,302	$111,342
Book Value Per Share	$ 39.01	$ 37.51
Net Current Asset Value Per Share	$ 19.57	$ 20.77
Recent Price of Common Stock	79¾	42⅝
Dividend Yield (on 1948 Dividends)	5.0	7.1
Price-Earnings Ratio (to 1948 Earnings)	18.0	11.9

(a)—$100 Par Value. (b)—$100 Stated Value.

How They Differ

There is one major difference between the two companies which conceivably could prove important. That is the fact that Procter & Gamble produces shortening (Crisco) and does not go in for toiletries such as shaving soaps, talcums, lotions and perfumes. Colgate, on the other hand, which has an extensive line of these items, has not ventured into production of shortenings. This variation in products explains to some extent Colgate's superior earnings experience in the war, when price ceilings tended to curb production and profit margins on shortenings, while rapidly rising national income found reflection in unprecedented sales volume of toilet goods that formerly had been considered in the luxury class. Keener competition in toilet goods since the war has narrowed margins and reduced Colgate's advantage in this respect over P. & G.

Colgate gained at the expense of its larger competitor in recent years too through development of a steadily larger proportion of domestic business. Some ten or twelve years ago, foreign business represented from 30 to 40 per cent of total volume, and difficulties (*Please turn to page* 196)

. . . . . . A Study of . . . . . .

Third Quarter Earnings

By J. C. CLIFFORD

The expanding crop of third quarter reports supplies evidence of vigorous efforts by managements to surmount handicaps characteristic of the readjustment period. As was only natural with the termination of a sellers' market, sales and earnings of most concerns in the three months ended September 30 compared unfavorably with results attained in the booming third quarter a year before. In many instances, though, the impact of suddenly reduced demand and unstable prices was more severely felt early in 1949, and quarterly results since then strongly reflect varying industry conditions as well as corporate ability to cope with them. Special significance applies to cases where earnings have remained stable in this year of uncertainties or where gains have been notable.

Managerial efficiency has rarely been put to such a serious test as in the current year in attempts to maintain adequate margins in a period of shrinking demand, volatile prices for both raw materials and finished goods, but with no easing of rigid wage costs and overhead expenses. In the struggle to stimulate sales, furthermore, numerous concerns stepped up their promotional activities on a record scale, adding to operating costs. Considering the extent and complexity of these problems, it is heartening to note how many managements have been able to report earnings as high or higher than in periods prior to recent abnormally prosperous years, and that over-all dividend distributions have remained on a surprisingly high level throughout 1949 to date. Exceptions to the rule, though are numerous, as shown by the divergent progress of individual companies. It is only by studying the quarter to quarter trends revealed by interim reports, together with changing conditions in the industries they represent, that clues to fourth quarter and early 1950 potentials present themselves.

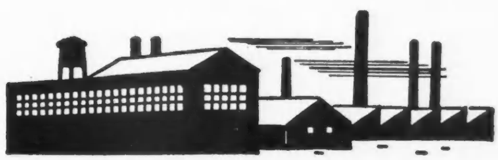
From a long list of representative enterprises that have reported for the third quarter, we have picked more or less at random some forty for inclusion in the appended statistical table. In order to visualize their progress at intervals over fifteen months past, we show their net sales and per share earnings in five consecutive quarters. This arangement permits comparisons of latest results with a year earlier as well as with those at different periods in 1949.

The work stoppage in the steel and coal industries, and numerous strike threats against large manufacturers, of course cloud the outlook for the final quarter to an extent that in many cases precludes reliable estimates of full year expectancies. On the other hand, quite a number of concerns should suffer little from these influences, unless fuel shortages become unduly burdensome. In these cases, quarter to quarter progress in the current year may point to what can be expected over the near term. Reference to our table will assist our readers in following our comments on the interesting picture they reveal.

What Reports Reveal

Unsettled conditions in 1949 have done little to vary the relative earnings stability of Air Reduction Company, Inc., characteristic for many years past. Profits of this company that operates about two dozen subsidiaries producing various kinds of industrial gases have declined only moderately in the current year. Volume of $21.8 million in the September quarter marks a consistent quarterly downtrend in 1949, but the decline from a high of $24.8 million in the last three months of 1948 was only 16%. Net earnings of 57 cents a share in the recent third quarter were only 3 cents less than in the comparable span a year before, and barely more than 10% below the December period when peak volume was reported. This attests to highly effective and flexible cost controls. Net earnings for all of 1949, barring the unforeseen, should approximate $2.40 a share, covering quarterly dividends of 25 cents by a comfortable margin. Payments have been made regularly since 1917.

Chrysler Corporation has presented an outstanding record of improved volume and earnings in 1949, with both rising impressively from quarter to quarter. Sales of $656.8 million in the third quarter



brought the total for nine months up to more than $1.6 billion, while earnings jumped steadily from $2.15 a share in the March quarter to a peak of $5.11 in the September period for an aggregate of $11.22 per share, an all-time high for nine months. This encouraging progress led the directors to declare a dividend of $1.50 a share, payable December 12, in contrast to $1.25 paid in the three preceding quarters, although many uncertainties cloud the company's earnings outlook in the final quarter.

The Motor Companies

Operations are certain to be restricted by strikes in the coal and steel industries, while employees of Chrysler itself have voted to strike unless demands for pensions are met. Of $97.6 million net income for nine months, furthermore, $13 million represented dividends received from foreign subsidiaries prior to currency devaluations, and income from this source should shrink in following periods. Chrysler's financial status as of September 30 reflected record strength with cash and short term marketable securities totalling $310 million, exclusive of tax notes bought for income tax payments, and compared with current liabilities of only $173.2 million. Inventories of $139.3 million were slightly lower than a year earlier despite sharply increased volume.

General Motors Corporation's diversified activities, spearheaded by automotive output, produced similarly spectacular results, and on a much broader scale than Chrysler's. Net sales for nine months topped $3.4 billion, of which $1.58 billion represented third quarter volume, compared with $1.2 billion for three months ended September 1948. On expanding sales in four quarters in a row, net profit margins widened somewhat, hence net earnings of $4.45 per share in the third quarter showed a steady advance from a level of $2.50 established in the final quarter of 1948.

In nine months of the current year, GM has earned $11.21 a share, a showing hardly likely to be matched in any similar period for quite some time to come. Earnings appear sure to contract in the final quarter, due to interrupted receipts of steel and seasonally declining demand for new cars. Granted that labor upsets subside before many months, it looks as if the automobile industry in 1950 may experience a degree of prosperity far above average. Now that General Motors has virtually completed its vast expansion and modernization program, the dividend outlook for shareholders seems bright, especially in view of hints by the management that a larger portion of earnings than in recent years will be distributed.

"Big Steel'

The big strike that started October 1 in no way influenced the operations of the steel industry in the first nine months, hence interim reports for this period give a clear-cut picture of varying progress by its components. But any attempts to appraise results for the final quarter would of course be quite out of order. United States Steel Corporation's volume of $1.9 billion for nine months was 9.2% higher than in the corresponding period of 1948, while net income responded with a gain of close to 65% or, on a per share basis, a rise from $2.65 to $4.38, adjusted for the 3 for 1 stock split last May. These comparisons are interesting because, as reference to our table will reveal, sales volume in the latest three quarters has been consistently receding, hitting a low of $604 million, while net earnings established a quarterly bottom of $1.26 a share in the September period.

But significance attaches to the fact that though sales in the September quarter were $16 million below the same span in 1948, earnings of $1.26 a share compare very favorably with the $1.08 reported a year earlier. Viewed from another angle, the company earned 6.5% on net sales in the third quarter against only 5.2% for nine months of 1948. Considering that production of steel ingots and castings was at an average of only 82.7% of capacity, and that prices for some grades of steel products were lower, while wage costs remained firm, these percentages indicate flexible cost controls that must have notably lowered U. S. Steel's break-even point. The company's vast expenditures for modernization in the last several years evidently are bearing fruit. After settlement of the current strike and upon resumption of more normal operations, it seems probable that benefits derived from improved facilities will become increasingly evident. This may count substantially if costs are expanded due to whatever basis is ultimately established for worker pensions.

U. S. Rubber

While quarterly sales of U. S. Rubber Company have trended upward (chiefly seasonally) in the current year, net earnings from quarter to quarter have taken a reverse course. On volume of $138.2 million in the September quarter, for example, net of 38 cents per share compared with March quarter earnings of $1.18 a share on sales of only $121.5 million. Annual vacation shutdowns, continued low prices and charge-offs on foreign exchange due to devaluations pinched the company's margins in the third quarter. Comparison of nine-month results with the same 1948 period is also disappointing, with sales of $396.5 million off by a little more than 8% and net earnings of $2.68 reduced by 58%. In recent weeks, though, prices on several kinds of tires and tubes have been raised by leading tire makers, while the management of U. S. Rubber Company hints of some non-recurrent credits that may benefit final quarter earnings.

Net sales of Life Savers Corporation in the first nine months of 1949, amounting to $10.7 million, rose 10.7% above the corresponding term of last year. Net earnings of $2.39, though, contrasted with $2.79 per share. An encouraging factor is that volume of $3.8 million in the September quarter, as well as net earnings of $1 per share, were the quarterly high mark for four periods in succession. This concern views the future with confidence and is expanding its facilities, the basic low price for its products creates a problem in coping with rising costs.

Minneapolis-Honeywell Regulator Company's experience in the third quarter was encouraging. In the first two quarters of the year, volume hovered just under $15 million quarterly compared with $19 million in the December period. For three months ended September 30, though, volume rose smartly to $19.5 million, quarterly peak for the five periods on our table. On enlarged third quarter sales, net earnings were $1.92 per share, about double the showing in the two previous periods. This still leaves room for improvement, however, as in the final quarter of 1948, the company earned $2.35 a share on somewhat smaller sales. On a nine months basis for 1949 and 1948, net of $3.71 per share versus $2.14 reflected a marked uptrend in demand, following last

year's early slump due to shortages of fuel oil. With oil supplies now ample and building construction at a high level, the company's outlook is bright.

National Gypsum Company

Vigorous building activities have helped to enhance prospects for National Gypsum Company also, following sharply reduced sales and earnings early this year. Reluctance of dealers to accumulate inventories in the first six months lowered the company's volume to $12.8 million in the June quarter compared with $18.3 million in the December quarter of 1948, forcing earnings down to 38 cents a share from last year's final quarter level of $1.12. For three months ended September 30, 1949, though, a rise in volume to $14.8 million resulted in net earnings of 74 cents a share, indicating how rapidly profits can improve when volume rises only moderately. As conditions suggest that high level consumption of wallboard and plasters will continue to lift the company's volume, for a marked resurgence in demand has now forced the company to allocate some of its products and all of its expanded plants are working on not less than a six day basis weekly, an improvement in earnings seems indicated for the final quarter.

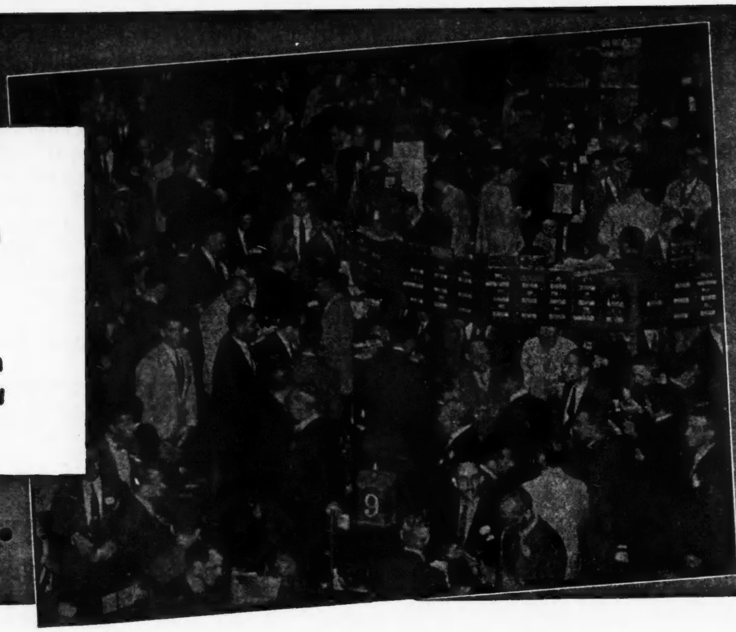
Phillips Petroleum Company, in common with practically all of the (*Please turn to page* 195)

Quarterly Comparison of Sales and Per Share Earnings

	1949						1948			
	(3rd Quarter		2nd Quarter		1st Quarter		4th Quarter		3rd Quarter	
	Net Sales (millions)	Net Per Share	Net Sales (millions)	Net Per Share	Net Sales (millions)	Net Per Share	Net Sales (millions)	Net Per Share	Net Sales (millions)	Net Per Share
Air Reduction Co.	$21.8	$ .57	$22.6	$ .56	$24.1	$ .66	$24.8	$ .64	$24.3	$ .60
American Brake Shoe Co.	19.5	.52	23.5	1.04	29.9	1.28	32.8	1.64	29.5	1.05
American Machine & Metals Inc.	8.3	.51	2.8	.19	2.8	.08	3.4	.60	3.1	.51
Boeing Airplane Co.	65.6	1.03	55.6	.08	55.1	.53	55.5	1.87	34.3	.71
Chrysler Corp.	656.8	5.11	549.6	3.97	401.2	2.15	498.0	3.37	407.0	2.77
Colgate-Palmolive-Peet	57.5	1.75	48.8	.83	54.7	1.71	49.2	1.66	59.2	1.52
Davison Chemical Corp.	6.6	.57	11.6	1.59	11.3	1.64	6.5	.37	7.8	.83
General Motors	1,580.4	4.45	1,595.3	3.72	1,282.3	3.04	1,265.4	2.50	1,201.6	2.67
General Refractories	6.1	.27	8.4	1.06	10.2	1.81	9.8	1.57	9.4	1.62
Hershey Chocolate Corp.	34.4	1.84	26.3	1.48	41.2	1.08	48.9	.07	38.1	1.25
Inland Steel Co.	92.5	1.54	91.1	1.44	101.6	1.89	111.9	3.25	101.2	1.56
Jones & Laughlin Steel Corp.	97.6	1.73	102.0	1.90	116.8	3.65	130.5	4.28	112.9	3.39
Life Savers Corp.	3.8	1.00	3.5	.72	3.2	.67	3.5	.88	3.4	1.02
Minneapolis-Honeywell Regulator	19.5	1.92	14.9	.80	14.7	.99	19.0	2.35	13.9	.93
Monsanto Chemical	42.0	.76	38.4	.75	40.8	.97	42.3	1.43	40.6	.78
National Biscuit Co.	72.8	.74	74.8	.85	75.6	.77	78.7	.91	72.5	.71
National Cash Register	39.5	1.25	43.9	1.53	42.0	1.69	50.6	2.32	41.7	1.68
National Gypsum Co.	14.8	.74	12.8	.38	15.1	.67	18.3	1.12	17.9	1.00
Parke, Davis & Co.	23.4	.70	19.7	.44	19.8	.63	19.6	.51	18.7	.52
Pennsylvania Salt Mfg.	9.0	1.00	8.5	.89	7.5	.72	7.7	.82	8.1	.77
Phila. & Reading Coal & Iron Co.	13.7	.22	16.7	.88	15.3	.26	21.1	1.37	22.4	1.29
Phillips Petroleum	121.3	1.77	119.2	1.53	125.1	2.10	157.4	2.80	117.5	3.18
Remington Rand, Inc.	33.6	.39	32.0	.31	38.4	.66	37.9	.42	35.1	.43
Ruberoid Co.	14.5	2.90	13.5	2.81	8.9	1.06	12.9	1.69	15.0	3.30
Sharpe & Dohme, Inc.	10.1	1.25	9.2	.88	10.1	1.48	8.9	.95	9.4	1.40
Smith (L. C.) & Corona Type., Inc.	6.3	.83	5.3	.25	5.3	.29(d)	6.5	1.07	6.2	.70
Standard Brands, Inc.	67.3	.68	63.2	.56	62.9	.50	69.6	.40	67.9	.19
Standard Oil of California	180.8	2.17	182.3	2.81	188.2	2.74	200.2	3.42	184.3	3.03
Stewart Warner	12.5	.38	13.1	.31	14.7	.31	16.5	.42	18.1	.57
Sylvania Electric Products	23.3	.18	22.5	.19	27.1	.74	27.6	.83	23.5	.46(a)
Texas Gulf Sulphur	14.4	1.70	16.2	1.97	14.9	1.90	16.6	1.86	14.7	1.58
Tide Water Associated Oil Co.	83.2	.91	89.7	.79	94.5	1.38	95.3	1.64	92.0	1.31
Union Bag & Paper	17.3	1.12	13.0	.73	15.7	1.46	19.6	2.06	18.5	2.21
Union Carbide & Carbon	145.7	.84	131.7	.61	157.0	.85	168.3	1.00	161.2	.92
U. S. Rubber	138.2	.38	136.7	1.12	121.5	1.18	141.1	2.06	153.8	1.72
U. S. Steel	604.8	1.26	647.0	1.45	664.8	1.67	726.6	1.35	620.2	1.08
Westinghouse Electric	242.2	1.54	241.4	1.31	226.6	.79	259.3	1.43	229.5	.62
Wrigley (Wm.) Jr., Co.	17.9	1.33	18.1	1.85	16.8	1.63	16.0	2.09	16.1	1.48
Yale & Towne Mfg. Co.	12.3	.28	14.2	.20	15.1	.48	16.3	1.18	14.7	.69
Youngstown Sheet & Tube	87.0	4.48	93.5	5.39	106.5	7.18	114.6	7.39	96.5	5.26

(a)—Based on 1,119.593 shares. (d)—Deficit.

FOR PROFIT AND INCOME



Pattern

A market reaction running into December would be in line with seasonal precedent; a continued rise would be unusual. In 29 years from 1920 through 1948, the lows in the Dow industrial average during the last 6 weeks of the year averaged about 8% under the highs made within the first half of November; while the highs of the final six weeks averaged less than 1% over the highs of the first half of November. In 28 out of 29 years, lows after November 15, were under highs of the first half of November. In 17 years, highs after November 15 were above highs of the first half of November; but in only 2 years was this by as much as 10%, and in only 4 did it exceed 5%. The precedent of year-end advances, figured from the low of the final 6 weeks, is strong; but it may be noted that December 31 closings have averaged nearly 3% under the highs of the first half of November. Judged solely on the past record, it is a good bet that the recent level of the market is going to be significantly bettered during the remainder of 1949. If there is any consistent reason for the pattern cited, it is tax-selling, which usually begins in November and runs well into December.

Selling

It could be argued that tax selling should be fairly light this year, in view of the advanced level of the general market. However, many individual stocks bought around highs of 1946, 1947 or 1948 now show substantial to large losses; and hence invite tax-adjustment sales. Also, some people may prefer to cash profits in 1949 on the reasoning that income taxes cannot be lower in 1950 but might possibly be higher, (however improbable that now looks) in view of the President's public position on this matter. Every "Fair Deal" victory at the polls must sharpen this threat of eventually higher taxes.

Oils

Continuing growth of consumption of gasoline and heating oils is assured; but the average annual increment can hardly be more than something like 3% to 4% over the long term, or more than 5% or so a year over the next several years. What about production? Some qualified experts in the industry think over-production of crude oil and consequent price unsettlement are highly probable. Others disagree. Without being expert on the matter, this column gives respectful attention to the first view. In any industry, high prices, excellent profits and record expansion of producing facilities are very likely to result in over-production and eventual price correction. That is inherent in a competitive, private-enterprise economy. For two years now there have been conditions in the oil industry too good to last indefinitely — conditions which invite over-expansion and over-production. Profits this year will be materially under the record 1948 level, but still very good by any pre-1948 standard of comparison. It would seem a pretty good bet that they will fall further for 1950. On an average, oil equities are around 1946 bull-market highs and not so very greatly under the historical 1948

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Allis-Chalmers Mfg. Co.	Sept. 30 Quarter	$1.32	$1.30
Commercial Credit	Sept. 30 Quarter	2.43	2.21
Scott Paper Co.	9 mos. October 1st	4.15	2.92
United Airlines	Sept. 30 Quarter	1.34	.33
U. S. Industrial Chemical	Sept. 30 Quarter	.55	.24
Coca-Cola Co.	Sept. 30 Quarter	3.15	3.14
American Cyanamid Co.	9 mos. Sept. 30	3.94	3.78
Lone Star Cement	Sept. 30 Quarter	2.90	2.40
C. I. T. Financial Corp.	Sept. 30 Quarter	1.77	1.24
Corning Glass Works	16 Weeks Oct. 9	.55	.15

highs. It may be a good idea to cash some profits. In due time, good oil stocks probably can be bought back at lower prices than they now command.

Video

Some time ago this column observed that Admiral had emerged as the leading video stock, and as one of the top companies in this new and growing field. The possibility that it might eventually cross Philco in market price was cited, Philco having previously been considered the "top" radio-video equity. Well, it's close. Admiral recently set a new all-time high of 29¼, getting within a couple of points or so of Philco, which remains decidedly under its past highs. Admiral earnings this year will be around $6 a share or more, also a new peak—$3 a share after allowing for the pending 100% stock dividend. The good news is out, the dividend is modest, and the price-earnings ratio is perhaps no lower than it should be in a situation as speculative as video. This column would rather take profits than buy the stock here.

Little I. B. M.?

The stock of International Business Machines, a high-priced Blue Chip, has been an excellent issue to hold over the years, due to a long-term growth trend, combined with uncommon year-to-year stability in earnings and dividends. Income from equipment which the company leases, rather than sells, is the stabilizing factor. Pitney-Bowes is a good-quality low-priced stock (listed on the Curb Exchange) which is in some degree comparable. This company makes mail - metering, post - marking, stamp - cancelling and other machines mostly having to do with the handling of mail; but its big item is the postage meter, and this is leased. Profits have shown gradual long-term expansion; the dividend record has been good. Earnings were $1.54 a share in 1948, a new peak, and should better that by 10% or so this year. The 72 cents a share distributed last year was a new peak, but a very considerably smaller percentage of earnings than was consistently paid to shareholders in most past years. The stock recently edged up to 15, new high since 1929. It behaves as if a justified boost in the dividend rate were coming up. This is a "quiet" situation. More than slow and moderate advance—or decline—is unlikely. Outside of some utilities, very few stocks in the low-priced field have its investment characteristics. Yielding only a little over 5% on the basis of 1948 dividends, it is moderately priced only on this column's assumption that more liberal payments are ahead.

Utilities

From an investment viewpoint, in few fields are prospects better and hazards fewer than in the electric power industry. It has more to gain from active residential building and the growing total of appliances (including television) in use than it is likely to lose from any conceivable fall in the industrial load. Its labor costs are a moderate percentage of total costs, which exceed labor costs, are running materially under year-ago levels. This is partly due to lower fuel prices, partly due to the progressive installation of new generating facilities which yield more power from a given quantity of fuel. The "political threat," always exaggerated in the past, is not great; for the State commissions and the courts generally permit a return of around 6% on net property investment, and there is nothing in the revenue or profit figures to indicate that Federal power projects have done positive harm of consequence to the industry. A return of around 6% on a steadily expanding investment promises gradual growth of share earings, since the expansion is financed in far greater degree out of the combinaton of internal funds and low-rate senior securities than out of equity financing. The advance in operating electric utility stocks has been unspectacular but substantial. It may now be due for a pause. However, current yields are relatively attractive and the trend is still generally upward. We conclude that well-situated utilities are among the soundest investment buys on moderate price concessions, and that more than moderate reactions are unlikely.

Dividends

With the year's results fairly well known to directors, November-December is the time for year-end "extras," or for increased regular rates in a number of cases. So far in November, the surprises have been more on the favorable side than otherwise. Among financially strong companies the general tendency, with some exceptions, is to repeat 1948 year-end payments, despite some shrinkage in profits. Two of the more notable boosts in regular rates have been those of Texas Company and Chrysler, the first with earnings down from 1948, the latter with almost fantastically high profits. A significant thing in the over-all dividend outlook is that, with expansion completed or tapering off and with the inflation spiral in commodity prices broken, corporations find it easier to accumulate cash; and are, therefore, distributing increased percentages of earings. According to an SEC study, total corporate holdings of cash or Government bonds had risen to $39.1 billion as of last June 30, which was equal to 69% of total current liabilities, against 61% at the end of last year. It now appears that the 1949 decline in total corporate profits will be somewhere in the vicinity of 20%, but that total dividends will exceed 1948's record of $7.9 billion by perhaps 3% to 5%. Satisfactory dividends accentuate the usual tendency of the typical investor to sit tight on his holdings.

(*Continued on page* 198)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Bigelow-Sanford Carpet Co.	October 1 Quarter	$ .04	$2.02
U. S. Gypsum Co.	Sept. 30 Quarter	3.52	4.27
Wheeling Steel Corp.	Sept. 30 Quarter	2.96	5.99
White Sewing Machine	Sept. 30 Quarter	2.33	3.00
Bristol-Myers Co.	Sept. 30 Quarter	.46	.84
Wheeling Steel Corp.	Sept. 30 Quarter	2.96	5.99
Standard Oil of New Jersey	9 mos. Sept. 30	6.46	10.25
Texas Co.	Sept. 30 Quarter	2.30	3.37
General Amer. Transportation	Sept. 30 Quarter	1.43	1.45
Radio Corp. of America	Sept. 30 Quarter	.23	.25

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Philco Corporation

"With a sharp increase in sales of television sets the past year, offset somewhat by lower sales volume in other products, I was wondering what the net results of Philco's operations this year were and what prospects were for the coming months."

P. C., Asheville, N. C.

In the first nine months of 1949, sales of Philco Corporation totaled $150,043,000 and net income amounted to $2,506,000, equivalent after preferred dividends to $1.32 per common share on the 1,678,779 shares outstanding. In the corresponding period of 1948, sales amounted to $194,156,000 and net income was $6,632,000, equivalent after preferred dividends to $3.95 per common share on the 1,607,576 shares outstanding on December 31, 1948.

With a two-week shut-down in mid-summer for factory vacations in the television and radio divisions, and heavy starting costs involved in getting production underway on the new 1950 line of television sets and radio receivers, sales of Philco in the third quarter totaled $46,776,000 and net income amounted to $508,000, equal to 24c per common share after preferred dividends. In the third quarter last year, aided by peak production of refrigerators, sales were $69,539,000 and earnings after appropriations were $2,416,000, equivalent after preferred dividends to $1.44 per common share on the 1,607,576 shares outstanding on December 31, 1948.

In September 1949, production of the new 1950 television line increased rapidly, and earnings of the company for that month were $802,000 or 46c per share after preferred dividends.

The marked improvement in earnings reflected in September was continued in October. Demand for 1950 radios and radio-phonographs is also continuing satisfactory. The increase in radio business was much greater than anticipated a few months ago, and production schedules were increased substantially.

Dividends in 1948 totaled $2.00 per share and 50c quarterly has been paid thus far in the current year.

Pennsylvania Salt Manufacturing Company

"Please advise on Pennsylvania Salt Manufacturing Company's recent operations, its improvement program and is the business being diversified?"

W. M., Baltimore, Md.

Sales of Pennsylvania Salt Manufacturing Company for the September quarter amounted to $9,000,000 and this compares with $8,161,590 in the same quarter in 1948 and with $8,500,000 for the June quarter and $7,504,000 for the March, 1949, quarter.

Net profit for the three months to September 30, 1949 amounted to $803,688, equal to $1.00 a common share and this compares with net profit in the same 1948 quarter of $626,370 or 77c per share.

Net profit for the nine months to September 30, 1949 amounted to $2,108,258, equivalent to $2.61 per common share and this compared to net profit of $1,611,003, equal to $1.95 per share for the first nine months of 1948.

Sales for the nine months ended September 30, exceeded $24 million and ran close to the $24,682,590 for the 1948 period. Business is currently looking better than it did a month ago, so the outlook appears favorable for the remainder of the year. Customers are becoming more active in the market, whereas a couple of months ago, or so, they showed only a passive interest. Temporary shortages have cropped up in one or two lines.

Profits continue to run ahead of a year ago, although sales show a small lag. This is due to economies effected in plant operations as well as in the sales and office organizations. The company has about completed its $15 million improvement program. This is yielding dividends in lower costs. With a savings effected through the use of the new facilities and improved distribution methods, the company is able to carry a greater portion of the sales dollar down to net.

The policy of developing a wide diversification of products has been a big asset. With this diversification a lower demand for some lines is offset by activity in others.

Pennsalt has over 10,000 customers representing every major industry. As a result, the average customer's bill last year was just slightly over $3,000.

The new hydrofluoric acid plant at Calvert City, Kentucky, is in commercial operation. As demand for fluorine chemicals grows, the plant will be expanded. Ultimately it may be one of the largest and most important in the company's string of plants.

The new plant, built at a cost of $2 million is expected to be a substantial factor in the over-all profit picture, as fluorides are becoming better known to industry and their uses multiplied.

The new fluorine chemical plant is located within 20 miles of the

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mines in Kentucky where the fluorspar ore is mined. Previously the ore was transported from the Kentucky mines to the plant at Easton, Pa., for processing. The new arrangement permits a saving of about $10.00 a ton in freight charges.

Plans are being prepared to celebrate the company's 100th anniversary in 1950.

Dividends in 1948 amounted to $1.50 per share and 90c has been paid this year up to September 15.

Babcock & Wilcox

"Please furnish information as to recent earnings and prospects of Babcock & Wilcox and also order backlog."
G. D., Bronx, N. Y.

Reflecting the fact that delivery schedules call for fewer deliveries from Babcock & Wilcox in the final half of the year than in earlier months, the company's shipments have eased off and in the 1949 final six months will be below the exceptional high level of the first half year—by perhaps as much as 10%, or more.

In such event, earnings will show a substantial contraction from the six months ended June 30, due to the difficulty in bringing down outlays as rapidly as revenue declines.

For the first six months of this year, Babcock & Wilcox earned $8.89 a common share, on sales revenues of $84,953,644, compared with earnings in the first half of 1948 of $7.44 a common share on sales of $70,919,433.

For the full year, with presently indicated contraction in sales in the final six months, earnings should approximate $10.00 a share, at least, and may be higher. This would compare with earnings of $15.63 a common share reported for the full year 1948.

Unfilled order backlog has been whittled down somewhat from the $129,598,000 figure reported for June 30 last as incoming new orders are running below current shipments. Present order backlog, however, indicates a relatively good level of business for some period ahead.

Dividends including extras totaled $5.00 per share in 1948 and $4.00 has been paid thus far in the current year.

Babcock & Wilcox is principally a manufacturer of steam-power plant equipment. Products include various forms of boilers, furnaces, stoking equipment and auxiliary apparatus for the operation of a steam generating plant.

Francisco Sugar Company

"Please explain the reason for the earnings drop of Francisco Sugar Company and outlook over coming months."
C. E., Asheville, N. C.

Consolidated net income of Francisco Sugar Company and its subsidiaries for the fiscal year ended June 30, 1949, totaled $502,460, equal to $1.43 a common share and gross income was $12,118,162. This compared with $2,016,783, or $5.75 a common share and gross income of $16,801,949 in the preceding twelve months. Deductions from the past year's profits included a loss of $332,000 on the liquidation of the estimated balance receivable on the molasses of the previous crop, due to the low prices received by the Cuban Sugar Stabilization Institute.

The principal cause of the drop of over $1,500,000 in earnings, when compared with 1948, was the collapse of the market for molasses. The difference in molasses prices between the two years amounts to over $900 million on this year's production, so that including the $332 million (deducted in 1949 for previous crop loss), the loss in gross revenues from molasses, due to poor prices, exceeded $1,200,000. As molasses is a by-product, with no expense charged to its manufacture, this difference was reflected, virtually in full in the reduced net profit for this past year.

Regarding the outlook for the sugar industry in coming months, generally it is considered favorable. A relatively small carryover of sugar from this crop is indicated, and the outlook so far for demand and sugar prices appears good.

The steadily mounting cost of production will, unless preventive measures are applied, take its reckoning. If existing high wage levels must be maintained in the face of smaller crops and reduced revenues, efficiency will have to be further increased through improved equipment and mechanization.

Working capital on June 30, 1949 amounted to $3,049,267, compared with $3,136,547 on June 30, 1948.

Dividends in 1948 amounted to $1.50 per share and 50c has been paid thus far this year.

Seeger Refrigerator Company

"I understand competition in the refrigeration industry has intensified and therefore, would be interested in knowing how Seeger Refrigerator Company sales and profits compare in the past year with the preceding one."
G. N., Springfield, Ill.

Despite a decline in the refrigerator appliance industry generally, Seeger Refrigerator Company in the year ended August 31, 1949, showed an increase of more than 11% in sales over the preceding year. Both sales and earnings were at record levels.

Net sales totaled $69,155,199 as compared with $62,154,289 in the preceding year. Net earnings were $4,178,428 after provision of $2,775,000 for state and federal income taxes, compared with $3,576,352 after taxes of $2,780,000 the year before. Based on 1,100,000 shares of Seeger stock outstanding, the earnings were equal to $3.79 a share in the latest twelve months as compared with $3.25 a share in the preceding year.

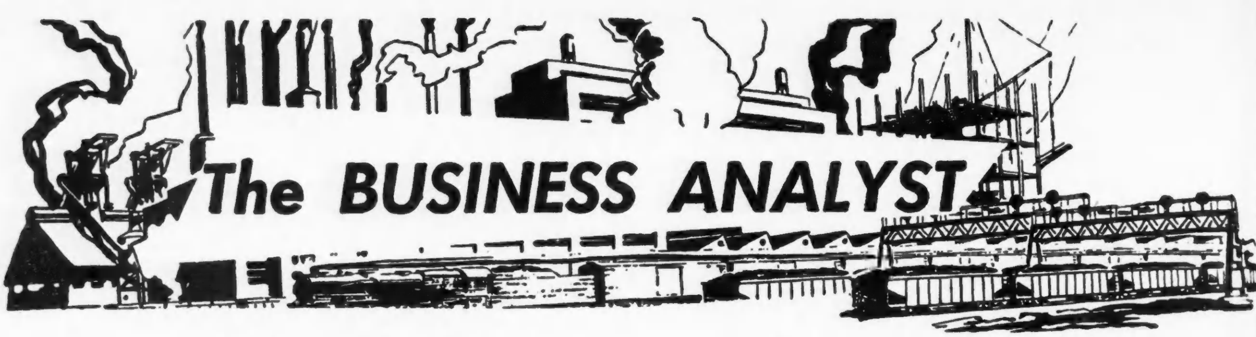
Inventories of $10,579,931 at the close of the preceding year were reduced to $3,847,440 at August 31, 1949, placing the company in a healthy position at the beginning of the new fiscal year.

Modernization and improvement program showed marked progress during the past year. A new building adjoining company's present plant at Evansville, Indiana, is well under construction and completion is expected early in 1950. This new building will provide some 275,000 square feet of new and needed warehouse capacity as well as additional manufacturing space. The building, valued at approximately $1,500,000 will house 55,000 household refrigerators at one time.

Total current assets of the company on August 31, 1949 were $19,187,634 and current liabilities were $7,561,164 and net current assets were $11,626,470. At the end of the preceding year, assets were $20,787,847 and liabilities $9,709068 with net current assets of $11,078,778.

On October 26, the New York Stock Exchange reported that Sears Roebuck & Company held directly 109,900 common shares of Seeger Refrigerator and an additional 10,400 shares indirectly through All-State Insurance Company, a subsidiary.

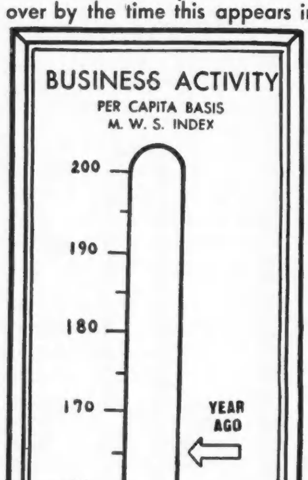
Dividends in 1948 amounted to $1.10 per share and $1.00 was paid up to September 29, 1949.



What's Ahead for Business?

By E. K. A.

With the coal miners ordered back to work and the steel deadlock definitely near solution (the steel strike may be all over by the time this appears in print), the "catch-up" post-strike recovery phase is about to begin. Many industries may limp a little for the next few weeks due to depleted steel inventories, replenishment of which will take time, but on the whole, recovery is likely to be consistent. Restocking together with other business stimulants should bring business quickly back to pre-strike levels, and keep it there well into next year. Full recovery from the strike-caused sharp slump should be due by the end of the year.



Just how great the snapback will be is a matter of conjecture but it is regarded entirely possible that the FRB Index of Industrial Production may be carried as high as 180 by year-end. This would be not only a substantial recovery from the estimated October low of 162 but a notable improvement over the pre-strike (September) figure of 172. Even if we see the index actually as high as 180, care should be taken, however, not to attach false significance to it. For it will mean neither the end of postwar readjustment nor the starting point of a new boom. The post-strike rebound is likely to be vigorous, but it will hardly change the fundamentals of the business picture.

Industry is anxious and ready to go ahead. Aside from the vacuum created in inventory pipelines in strike affected industries, other developments will contribute to the coming upturn. The 2.8 billion insurance refund distribution to veterans is certain to bolster business at the retail level, and Government spending for all purposes is running at a much higher rate than generally expected.

The strikes actually did not nearly interfere as much with economic activity as was originally feared. Basically, business hasn't suffered very greatly. The steel and coal industries were of course completely knocked out; but the rest of industry has been running pretty much normally, drawing on stockpiles, and actual curtailments or shutdowns due to lack of steel or coal were not extensive from the standpoint of the over-all economy. Return to operations of the struck industries will quickly restore the production index to where it stood before the strike, and restocking requirements are bound to keep it there, or somewhat higher, for some time to come. But restocking alone isn't enough to generate a really significant upswing, or perpetuate the business recovery interrupted by strikes unless basic factors work in this direction.

Thus during the post-strike recovery, it will be important to keep things in proper perspective. There is still considerable debate whether the strikes interrupted a genuine business recovery or merely a temporary upswing generated by a temporary inventory boomlet. A good deal of evidence argues for the latter, meaning that even without strikes, the summer recovery would have petered out at around this time.

Saving vs. Spending

It will be interesting to watch the exact nature of the post-strike recovery. The probability is that it will mainly center on durable goods, the lines most affected by shortage of steel. The recovery in non-durable goods was not interrupted but latterly has begun to look somewhat "tired" in direct reflection, no doubt, of recent disappointing retail sales. Retailers have rarely been at such a loss to explain the ups and downs of trade as at present. Neither the strikes nor the weather fully explain it. In the circumstances they have come to the conclusion that the public is "choosy" and still has plenty of money to spend—when it wants to.

This is doubtless true. Evidence is found in the steady increase in personal savings this year, always a sure sign that optional buying is being cut back, at least temporarily. The high cost of every-day living, plus uncertainties which make for greater spending caution have been cited as direct causes. In goodly part it may be the backwash of exaggerated pessimism this year. At any rate the public has been holding back; the extent to which it did may be seen in the fact that during the first half this year, savings were estimated at an annual rate of $16 billion or almost double the annual rate of $8.8 billion in the comparable 1948 period.

The Business Analyst

HIGHLIGHTS

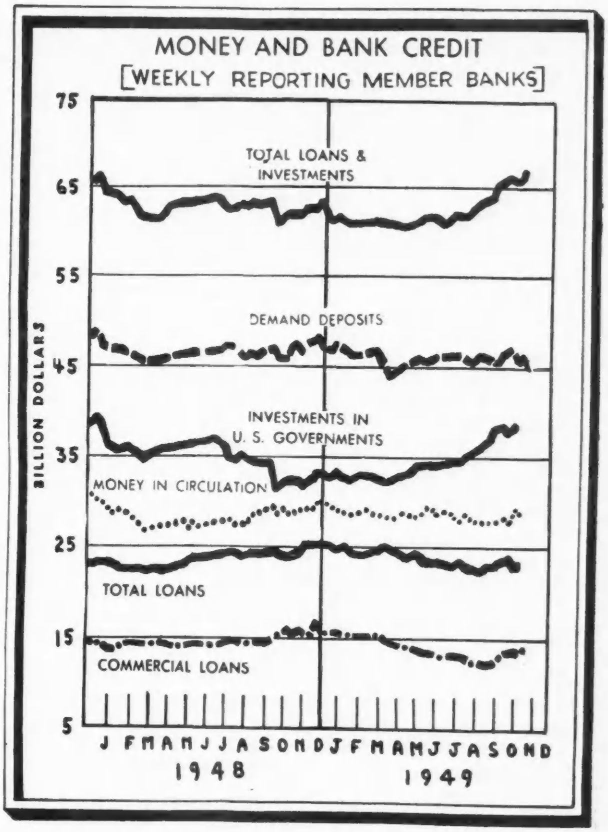
MONEY AND CREDIT—During the fortnight ended November 5, common stocks continued their slow advance, despite the coal and steel strikes, with 17 of our group index reaching new highs for various periods, as tabulated on the second page following. Our index of 100 Low Priced Stocks, however, has not yet succeeded in penetrating the year's high touched in the first week of January. N. Y. bank stocks sold off sharply during the second week of the fortnight. Preferred stocks and U. S. Government bonds were up fractionally, with the restricted Victory 2½s advancing more than a point. High grade rail bonds and foreign government dollar bonds were off a little. In the London market, British government bonds slumped badly on fears of worsening of the economic crisis. With the British War Loan 3½s droping to 89¼, a 10-year low, the government's credit has sunk to a 4% yield basis. The banking report covering the fortnight ended October 26 shows that demand deposits expanded $1,058 million to a level only $81 million below last year. About half the gain was caused by bank buying of U. S. securities, and most of the remainder by heavy disbursements from inter-bank deposits. Commercial loans expanded only $114 million to a level still $1.73 billion under a year ago. Earnings assets rose $565 million to $4.33 billion above last year. The Budget Bureau now opines that the U. S. Government wi.l run $5.5 billion in the red during the current fiscal year. Receipts are expected to be $3 billion less, and expenditures $1.6 billion more, than predicted in the President's budget message of last January, which envisioned a deficit of only $0.9 billion.

TRADE—Department Store Sales picked up a little during the final week of October with the decline below last year narrowing to 7% compared with a four-weeks' drop of 11%. Part of the relative improvement was due to the circumstance that a slump in consumer demand set in around this time last year. For the month of September, sales by all retail outlets throughout the nation were only 2% below last year; but sales at wholesale were off 9%, though 5% ahead of August.

INDUSTRY—Business Activity during the week ended October 29 slipped to 3.4% below last year. A mild decline in business and profits next year would not be surprising; but dividends wil probably hold up better. Up to the present writing, strikes are still adding to unemployment; but with automobile sales and construction activity still holding at near record levels, a sharp rebound wil follow the reopening of the steel mills and coal mines. The big question now is: "How long will it last?"

COMMODITIES—Both spot and futures indexes advanced during the fortnight ended November 5, though spot prices showed smaller net gains than futures. Corn, for instance, was higher in futures markets; but cash prices were lower. Wool and hides have more than recovered their pre-devaluation drop. Copper was raised ⅞ cent, and zinc ½ cent.

While inventory replenishment will spark a sharp rebound in steel output, coal production and carloadings following settlement of the strikes, the duration of such improvement is problematical. The Bureau of Agricultural Economics, whose forecasts are generally free from political motivation, predicts that the gradual down-turn in **Business Activity,** which set in early this year, wil be resumed next year, with a drop in



employment, and a "relatively slow decline in prices."

* * *

The forecast is predicated upon continuation of the slowdown in plant expansion, a probable decline in our **Exports** and shrinking farm income to result from restricted production or, in some instances, lowered support prices.

* * *

The persistent decline in commercial and industrial building, which set in nearly three years ago, indicates clearly that the post-war boom in **Capital Expenditures** is tapering off. Expenditures for erecting new industrial buildings dropped 56% between January, 1947, and September of this year. Outlays for new commercial buildings (stores, warehouses, restaurants, garage, loft and office buildings) in September were off 30% from a year ago.

* * *

Engineering Construction awards, which held persistently above last year during the first three quarters, ran significantly lower during October. In the week ended October 27, they were off 24% with private awards down 30%. The following week, however, witnessed a sharp upspurt caused mainly by a $52 million award for expanding the Northern Natural Gas Company's pipe line facilities in five western states.

* * *

But as long as automobile sales and other construction activi-

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Oct.	1.19	1.30	1.08	1.55
Cumulative from mid-1940	Oct.	388.4	387.2	373.6	13.8
FEDERAL GROSS DEBT—$b	Nov. 2	256.9	256.6	252.5	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Oct. 26	47.3	46.7	47.4	26.1
Currency in Circulation	Nov. 2	27.4	27.3	28.3	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Oct. 26	8.05	8.09	8.21	4.26
93 Other Centers—$b	Oct. 26	12.06	11.93	12.68	7.60
PERSONAL INCOMES—$b (cd3)	Aug.	213.7	211.9	217.6	102
Salaries and Wages	Aug.	138.9	138.5	140.7	66
Proprietors' Incomes	Aug.	45.5	44.2	49.5	23
Interest and Dividends	Aug.	17.0	17.1	16.3	10
Transfer Payments	Aug.	12.3	12.1	11.1	3
(INCOME FROM AGRICULTURE)	Aug.	21.6	20.7	25.6	10
CIVILIAN EMPLOYMENT—m (cb)	Oct.	59.0	59.4	60.1	51.8
Agricultural Employment (cb)	Oct.	7.7	8.1	8.6	8.8
Employees, Manufacturing (lb)	Sept.	43.5	43.0	44.9	13.8
Employees, Government (lb)	Sept.	5.9	5.8	5.7	4.6
UNEMPLOYMENT—m (cb)	Oct.	3.6	3.4	1.6	3.8
FACTORY EMPLOYMENT (1b4)	Aug.	141	137	156	147
Durable Goods	Aug.	163	161	187	175
Non-Durable Goods	Aug.	133	126	141	123
FACTORY PAYROLLS (1b4)	Aug.	323	313	360	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Sept.	39.6	39.1	39.8	40.3
Hourly Wage (cents)	Sept.	140.5	139.8	138.6	78.1
Weekly Wage ($)	Sept.	55.64	54.66	55.16	32.79
PRICES—Wholesale (1b2)	Nov. 1	151.4	152.5	164.0	92.5
Retail (cdlb)	Aug.	186.7	186.8	196.3	116.2
COST OF LIVING (1b3)	Sept.	169.6	168.8	174.5	110.2
Food	Sept.	204.2	202.6	215.2	113.1
Clothing	Sept.	187.2	187.4	201.0	113.8
Rent	Sept.	121.2	120.8	118.5	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Sept.	10.89	10.61	11.09	4.72
Durable Goods	Sept.	3.48	3.63	3.31	1.13
Non-Durable Goods	Sept.	7.41	6.98	7.78	3.58
Dep't Store Sales (mrb)	Sept.	0.81	0.70	0.91	0.49
Retail Sales Credit, End Mo. (rb2)	Sept.	8.57	8.28	8.42	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Aug.	211	192	251	181
Durable Goods	Aug.	226	191	287	221
Non-Durable Goods	Aug.	199	193	230	157
Shipments (cd2)—Total	Aug.	325	294	342	187
Durable Goods	Aug.	343	332	368	227
Non-Durable Goods	Aug.	317	272	327	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Aug.	50.4	50.5	52.5	28.6
Manufacturers'	Aug.	29.1	29.7	30.4	16.4
Wholesalers'	Aug.	8.0	7.8	8.1	4.1
Retailers'	Aug.	13.3	13.0	14.0	8.1
Dept. Store Stocks (mrb)	Aug.	2.0	1.9	2.6	1.4
BUSINESS ACTIVITY—1—pc	Oct. 29	158.0	157.3	166.4	141.8
(M. W. S.)—I—np.	Oct. 29	182.9	182.1	189.4	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 000)

ties, notably public, continue to hold around the present phenomenally high level, there be no grounds for fearing a severe **Depression.**

* * *

Moreover, with less need for withholding profits to finance capital expenditures, **Dividends** will probably hold up better than profits. Henceforth, corporations may find it more difficult to convince Government tax collectors, or even their shareholders, of the need for abnormally large retention of earnings. In September, for instance, cash dividend payments were 7% more liberal than for the like month last year, against a gain of only 1% for the entire third quarter. Dividends paid by public utilities during the third quarter were up 19% from a year ago.

* * *

Explanation for this liberality in dividend payments by the **Utilities** may be found in the circumstance that, thanks largely to a 14% saving on fuel costs, net earnings in the third quarter improved 17% over the like period last year.

* * *

The Census Bureau reports an increase of 225,000 in **Unemployment** between the first week of September and the first week of October. Ordinarily, workers idled by strikes are not listed as unemployed: since they have jobs to which they can return when the desputes are settled. But in this instance, many coal miners and steel workers, anticipating a prolonged deadlock, have ben actively seeking employment elsewhere and are thus classed among the jobless. Paradoxically, non-farm employment rose 36,000 between September and October, thanks largely to great numbers (434,000) of plucky women who hustled out to help support their families while the men folk were out of work.

* * *

While statistics of employment and unemployment are of vital humanitarian and social importance, up-to-date reports on the number actually **At Work,** and their hours, are more useful as a measure of the nation's overall physical volume of business activity. According to Census Bureau concepts, a person is listed as employed when there is work for pay or profit to which he or she can return within 30 days, even though temporarily absent on vacation, or due to illness, bad weather, furloughs or strikes. During the census sampling week ended October 8, the number of non-farm workers with a job,

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Sept.	172	170	192	174
Mining	Sept.	119	129	156	133
Durable Goods Mfr.	Sept.	197	192	225	220
Non-Durable Goods Mfr.	Sept.	170	165	178	151
CARLOADINGS—t—Total	Oct. 29	591	589	931	833
Manufactures & Miscellaneous	Oct. 29	322	320	429	379
Mdse. L. C. L.	Oct. 29	88	87	112	156
Grain	Oct. 29	55	57	58	43
ELEC. POWER Output (Kw.H.)m	Oct. 29	5,433	5,430	5,555	3,267
SOFT COAL, Prod. (st) m	Oct. 29	2.8	2.5	12.5	10.8
Cumulative from Jan. 1	Oct. 29	349	346	494	446
Stocks, End Mo.	Sept.	62.0	68.6	67.6	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Oct. 29	5.1	5.1	5.7	4.1
Gasoline Stocks	Oct. 29	104	103	92	86
Fuel Oil Stocks	Oct. 29	69	70	61	94
Heating Oil Stocks	Oct. 29	90	89	77	55
LUMBER, Prod. (bd. ft.) m	Oct. 29	650	673	634	632
Stocks, End Mo. (bd. ft.) b	Aug.	7.9	7.9	6.3	12.6
STEEL INGOT PROD. (st.) m	Sept.	6.57	6.71	7.42	6.96
Cumulative from Jan. 1	Sept.	65.0	58.4	65.1	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Nov.	170	136	109	94
Cumulative from Jan. 1	Nov.	6,894	6,724	5,996	5,692
MISCELLANEOUS					
Paperboard, New Orders (st) t	Oct. 29	194	196	200	165
U. S. Newsprint Consumption (st) t	Oct.	451	402	432	352
Do., Stocks (mpt), End Month	Oct.	797	796	669	523
Natural Rubber Consumption (lt) t	Aug.	44.7	40.6	53.4	54.3
Do., Synthetic	Aug.	23.9	30.0	39.3	0.5
Footwear Production (pairs)	Aug.	44.5	33.0	41.4	34.8

PRESENT POSITION AND OUTLOOK

but not at work, totaled 1,855,000. This was nearly 3% of all non-farm employment at that time; though 484,000 smaller than a month earlier. As to agricultural employment, which is included in the published figures on total employment, this covers not only hired workers, but also farmers and members of their family who share in the work; but it may be months before the products of their labor show up in the business indexes.

* * *

During the second week of October, the number of non-farm members of the labor force actually at work totaled 49,435,000—520,000 more than a month earlier; but 488,000 fewer than in the corresponding week last year. Average hours worked during the October sampling week were 41.3, against 41.9 a year earlier. Thus **Man-Hours** worked this year during the week ended October 8 totaled 2.04 billion—2.6% less than in the corresponding week of 1948. A week later, when the fruit of this work had had time to show up in weekly busines statistics, this publications' index of **Business Activity** registered a decline of 2.6% below last year. It is only fair to confess, however, that agrement between the two methods of computing business activity, though usually close, is seldom so perfect.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). ib4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

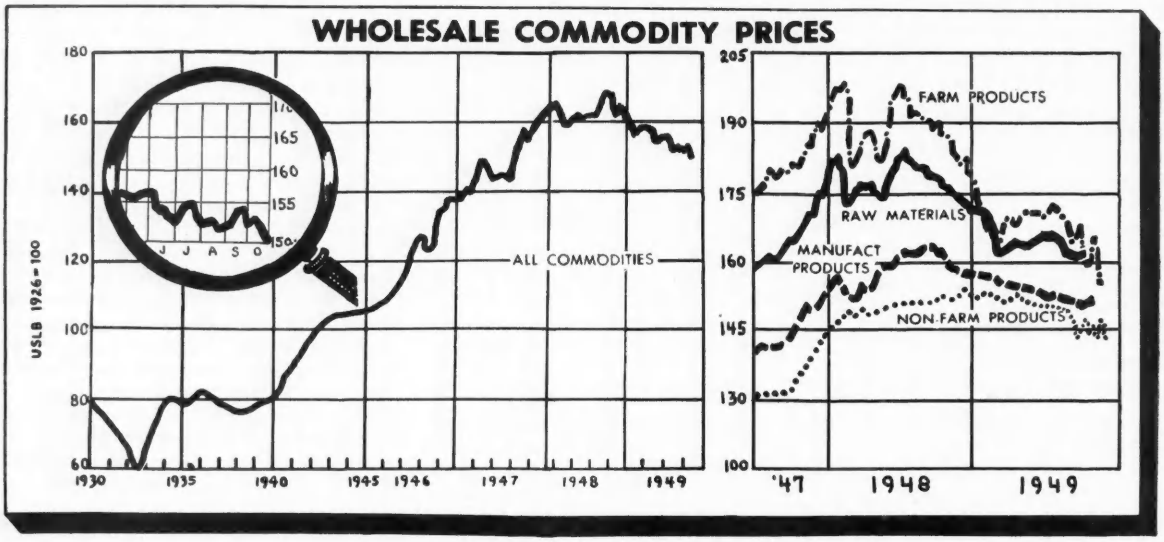
No. of Issues 1925 Close—100)	1949 Indexes High	Low	Oct. 29	Nov. 5
320 COMBINED AVERAGE	129.3	108.0	128.6	129.3A
4 Agricultural Implements	205.2	162.1	204.2	205.2A
10 Aircraft (1927 Cl.—100)	175.3	138.2	167.6	161.4
6 Air Lines 1934 Cl.—100)	454.7	366.1	449.2	443.0
6 Amusement	93.4	75.7	89.0	89.2
12 Automobile Accessories	188.9	145.2	181.5	181.8
12 Automobiles	29.7	21.3	26.6	26.2
3 Baking (1926 Cl.—100)	19.7	18.1	19.7	19.7
3 Business Machines	247.0	209.0	234.4	247.0A
2 Bus Lines (1926 Cl.—100)	135.7	118.3	135.7A	134.6
5 Chemicals	252.7	212.7	248.6	252.7A
3 Coal Mining	19.2	11.2	14.3	14.0
4 Communication	39.4	31.8	38.8	39.1
13 Construction	58.5	47.4	57.8	58.2
7 Containers	288.1	240.7	288.1A	286.5
9 Copper & Brass	95.8	67.4	78.1	81.1
2 Dairy Products	68.1	53.3	65.7	68.1B
5 Department Stores	58.0	49.2	55.6	55.1
6 Drugs & Toilet Articles	172.5	141.6	172.5A	170.8
2 Finance Companies	308.2	246.1	301.6	308.2C
7 Food Brands	171.0	146.0	171.0A	169.6
2 Food Stores	88.6	58.5	88.3	88.4
3 Furniture	70.7	54.7	66.4	67.1
3 Gold Mining	795.1	566.3	780.4	795.1B

(Nov. 14, 1936, Cl.—100)	High	Low	Oct. 29	Nov. 5
100 HIGH PRICED STOCKS	83.67	71.00	82.84	83.67A
100 LOW PRICED STOCKS	146.36	119.71	145.55	145.33
6 Investment Trusts	67.8	53.9	66.2	67.8A
3 Liquor 1927 Cl.—100)	755.9	602.9	749.9	739.7
10 Machinery	136.9	115.9	135.7	135.0
3 Mail Order	104.9	87.1	101.0	100.1
3 Meat Packing	79.9	63.3	78.1	78.0
12 Metals, Miscellaneous	158.1	122.0	146.8	149.3
4 Paper	37.3	27.9	36.7	37.1
29 Petroleum	255.2	207.1	254.8	255.2A
21 Public Utilities	134.7	102.4	132.0	134.7C
6 Radio (1927 Cl.—100)	26.7	13.6	17.4	17.2
9 Railroad Equipment	50.0	36.5	43.2	43.4
24 Railroads	23.4	17.5	20.1	20.6
3 Realty	30.2	21.4	29.0	30.2B
3 Shipbuilding	144.4	120.0	136.4	134.4
3 Soft Drinks	367.4	298.2	336.1	331.3
14 Steel & Iron	106.2	77.0	92.3	92.5
3 Sugar	49.4	39.8	48.5	49.4A
2 Sulphur	316.1	233.8	307.6	316.1T
5 Textiles	132.5	100.9	119.6	122.6
3 Tires & Rubber	31.6	26.6	29.6	29.8
6 Tobacco	84.2	67.1	81.2	82.6
2 Variety Stores	346.2	308.3	332.9	336.5
17 Unclassified (1948 Cl.—100)	112.7	93.2	112.7A	111.6

New HIGH since: A—1948; B—1947; C—1946; T—1928.

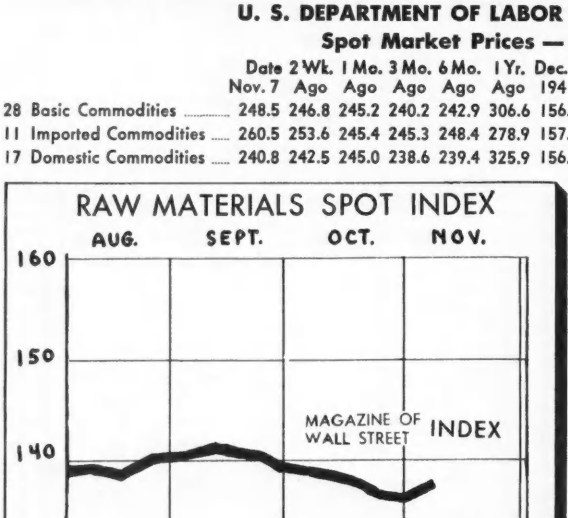
Trend of Commodities

Spot and futures indexes extended their advance during the fortnight ended November 5; though cash prices showed smaller net gains than futures. Wool and hides have more than recovered their post-devaluation drop. The Agriculture Department says that total ouput of all crops this year will be only 4% short of last year's all-time record high. The rice crop this year will set a new all-time high of 89 million bushels—nearly twice pre-war 1938. Under recent Act of Congress, the support price wil be raised to $2.03, from the present $1.78; so the Government is expected to order a slash of around 20% in acreage. Corn carryover on October 1 was a record-breaking 815 million bushels. A 12% cut in planting next year's crop is in the cards. Penalty for farmers who exceed their allotment will be withdrawal of support for their crop. Carryover of other principal crops on October 1 was: wheat, 928 million bushels; rye, 18 million; oats, 1,124 million; barley, 248 million; sorghum grains, 18 million. Consequent upon such huge carryovers, farm profits may drop 15% next year, due to acreage cuts or, the alternative, loss of price support. The main reason why Australia has been able to raise wool prices more than enough to offset the otherwise depressing influence of currency devaluations is the present excess of demand over world supply. The U. S., which is second only to England among the globe's top consumers, is using 50% more fleece than it did in pre-war days; yet our sheep population is now the smallest in over 80 years. Acting upon a recent authorization by Congress, the U. S. is negotiating with India to sell her a million tons of our wheat in exchange for manganese, mica, chrome, etc.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

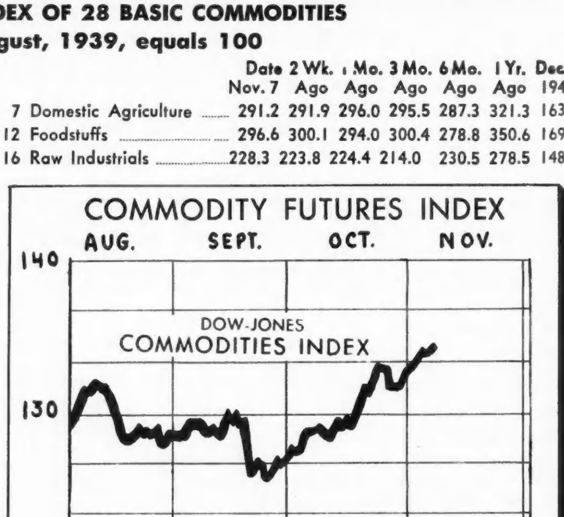
	Date Nov. 7	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	248.5	246.8	245.2	240.2	242.9	306.6	156.9
11 Imported Commodities	260.5	253.6	245.4	245.3	248.4	278.9	157.3
17 Domestic Commodities	240.8	242.5	245.0	238.6	239.4	325.9	156.6
7 Domestic Agriculture	291.2	291.9	296.0	295.5	287.3	321.3	163.9
12 Foodstuffs	296.6	300.1	294.0	300.4	278.8	350.6	169.2
16 Raw Industrials	228.3	223.8	224.4	214.0	230.5	278.5	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.9	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	122.45	139.83	117.14	93.90	55.45	46.59	45.03	52.03

A Study of Third Quarter Earnings

(*Continued from page* 185)

larger oil concerns, has reported earnings substantially lower than in abnormally prosperous 1948, but the trend at present seems to be reversing. Sales of $365.7 million for nine months were about 10% higher than in the related interval of 1948, but reduced prices cut into margins and net per share of $5.40 compared adversely with $9.21 earned a year before in the same span. While volume of $121.3 million in the September quarter was only $2 million above the level in the preceding quarter, net earnings at $1.77 advanced about 16%.

As prices for a number of petroleum products have strengthened and State allowable production rates have been increased, it is rational to assume that earnings of this concern may continue the recent uptrend. The management predicts that the daily average demand for domestic crude oil in the first quarter of 1950 will be about 8% greater than at the end of this September. At the beginning of the final quarter, this concern had cash balances of $45 million and though its 1949 capital program involved $90 million, it was found possible to cancel the remaining $20 million of standby credit available to finance this year's improvement and development outlays. This suggests some improvement in the ultra-conservative quarterly dividend of 25 cents per share before too long.

Third quarter net sales of Sylvania Electric Products, amounting to $23.3 million, almost exactly matched those in the same period of 1948, but narrowed margins through the current year have depressed earnings from quarter to quarter, culminating in a low of 18 cents per share in the September quarter. In the same period last year and on virtually the same volume, net of 46 cents a share was reported, though on a smaller number of shares outstanding. The comparison becomes clearer in considering net earnings of $356,530 in the recent period against $613,415 in the third quarter last year. Sylvania's incoming business recovered strongly in September, with orders for both radio and television tubes turning sharply upward, while shipments of Christmas tree lamps are ahead of last year. Sales of incandescent and fluorescent lamps have held steady throughout the year. On the whole, the outlook for the final quarter is encouraging.

A 27.8% decline in nine months' sales of Stewart-Warner Corporation from last year in the same period virtually halved the company's net earnings to $1 per share compared with $2.06. An interesting factor to note, though, is that despite a fall in volume from $14.7 million in the first quarter to $12.5 million for three months ended September 30, net earnings of 38 cents per share in the latest quarter compared favorably with 31 cents in the earlier period. This would indicate some measure of success attained by the management in overcoming its readjustment problems, especially in reducing unit operating costs. In 1948, the reverse was true, for net of 57 cents a share in the third quarter compared with 70 cents earned on smaller volume in the first quarter. This concern's output is so diversified that it is hard to ascribe the recent improvement to any special products, but the overall results point to good cost controls. Stewart-Warners financial status shows continued strength, with holdings of cash and Government securities on September 30 aggregating $14.4 million, compared with total current liabilities of only $6.8 million.

Union Bag & Paper

In the first two quarters of 1949, volume and earnings of Union Bag & Paper Company continued to head down quite discouragingly, but at midyear the management predicted that dealers' stocks were becoming unduly depleted. This surmise seems to have been verified as volume in the third quarter snapped up to $17.3 million from $13 million in the June quarter. The recent level, though, is still short of $18.5 million sales in the third quarter of 1948 and $19.6 million in last year's final period. Replacement demand is so stable for the products of this concern, the leader in its field, that it seems likely that volume will continue to improve.

Lower prices, though, have apparently reduced margins, while net earnings of $1.12 a share in the third quarter compared favorably with 73 cents in the preceding quarter, the company earned $1.46 a share in the January quarter on $1.6 million less sales. Uncertainties in the current year have influenced Union Bag & Paper to declare fewer extra dividends than last year, though the regular quarterly rate 50 cents and one extra of 25 cents has been paid. In 1948 the company paid 25 cents extra in each of the three first quarters and an extra of $1.25 at the year-end. If readjustment problems now appear to be well resolved, the directors may perhaps again become more liberal in their policies.

Though operations of Union Carbide and Carbon Company thus far in 1949 have been on a somewhat lower level than in the last half of 1948, an uptrend developed in the recent third quarter that could well extend further. Expenditures of more than $150 million to expand and diversify output in the last few years should progressively enhance this company's volume and earnings potentials. Uncertainties prevalent in the second quarter caused sales to shrink to $131.7 million compared with $168.3 million in the final quarter of 1948, a 22% decline, while net earnings of 61 cents a share declined 39%. When third quarter volume advanced to $145.7 million in line with the pick-up in general business, net earnings rose to 84 cents a share, only 8 cents below the third quarter of 1948 when volume was $161.2 million. It seems clear that permanent advantages have been won through cost savings achieved by liberal outlays for plant improvements and that when these are fully completed, further earnings gains can be anticipated.

Unusual stability has always characterized the long term record of William Wrigley Jr. Company, leading producer of chewing gum. In a year of readjustments like 1949 when consumption of gum has undoubtedly been steady and prices have also remained stable, variations in quarterly volume have been mainly due to changing desires of distributors to accumulate inventories. Confidence of retailers in this respect has been shown by a slightly irregular uptrend in the William Wrigley Company sales as the year unfolded. Increased promotional expenses and other operating costs, though, have narrowed

margins in the current year, especially in the third quarter, as shown by net earnings of $1.33 per share on volume of $17.9 million compared with net of $1.48 a share on sales of $16.1 million in last year's September quarter. For the third consecutive year, however, nine-month earnings have continued to improve, with $4.81 per share in 1949 a new top. Wrigley has distributed a liberal share of earnings thus far in 1949, supplementing regular 25 cents a share monthly dividends with two specials for a total of $3.75 a share through November 1. In 1948, total payments for the whole year were $4 per share.

Procter & Gamble vs. Colgate-Palmolive-Peet

(*Continued from page* 182)

were frequently encountered in transferring profits from abroad to this country. In the latest twelve months, net income derived from overseas business accounted for about 23 per cent of $9.8 million total. This rise in importance of domestic business is regarded as a favorable factor.

Had it not been for diminishing dependence on foreign business, the recent worldwide currency devaluation might have caused serious difficulties for Colgate. Results for the year will not be materially affected, however, the company points out, saying that earnings of foreign companies are not included in the parent company's income "unless received in the United States in dollars." Stockholders were told in the latest quarterly report that the immediate effect of devaluation "is to reduce the dollar equivalent of the net assets of foreign subsidiaries by approximately $1,850,000. The parent company's equity in net assets of foreign subsidiaries, after devaluation, exceeded the amount at which the investments in these subsidiaries were carried by approximately $12,000,000."

Expanding Exports

P. & G. has continued to expand its export business and in the June 30 year-end statement, net assets of subsidiaries operating abroad were placed at $34.6 million, while earnings from this source came to $7 million of a total of $28.7 million after taxes. The foreign subsidiaries contributed about $2 million in dividends and the remaining profit was retained in overseas business. Commenting on the outlook for foreign operations, Richard R. Deupree, chairman of the board, says in the company's annual statement:

"Our overseas business has continued to progress during the past twelve months and is very substantially contributing to the company's well-being. We have subsidiaries in Canada, Cuba, Puerto Rico, Mexico, Great Britain, the Philippine Islands, Java and South Africa. This group comprises our overseas division, and while no one can state what the economic conditions of those countries will be over the next twelve months, we see nothing on the horizon today that should prevent continued progress."

Good September Quarter

Publication recently of unexpectedly favorable September

quarter earnings results for both companies undoubtedly stimulated interest in the stocks on the theory that estimates of potential earning power had been unrealistic. The good showing probably could be traced to an unusual spurt in sales volume induced by price advanced in raw materials. In the period of price weakness early in the year, when producers reduced prices on several occasions, dealers allowed inventories to "run off" to exceptionally low levels. This is normal trade procedure.

Thus when commodity prices turn upward, distributors are in position to take advantage of reduced prices to enlarge inventories. Apparently this situation developed in July and August, when tallow and cocoanut oil prices strengthened. Shipments to dealers increased sharply over those in earlier months, contributing to larger than usual sales for the summer period. Hence, with stocks in hands of dealers probably nearer normal, sales may slacken in coming months.

Normal Postwar Experience?

On basis of experience thus far this year, there seems good reason for thinking that results for the current calendar year may represent reasonably normal postwar conditions. Prices of raw materials may be expected to fluctuate more narrowly than in 1947 and 1948, while consumption of soap promises to hold at a level well above pre-war experience. Thus profit margins seem destined to remain highly satisfactory for the foreseeable future.

No discussion of these two companies would be complete without reference to the growing importance of synthetic detergents as a source of income and as a stabilizing factor that promises to warrant a higher appraisal of earning power. Actually, new products introduced in recent years suggest that an entirely new industry is in the making.

Synthetic Detergents

Synthetic detergents are produced from different raw materials, notably petroleum. They overcome two basic defects in natural soap — a tendency to react to minerals in water and to form a film left on clothing or dishes and a tendency to decompose in acids, thereby limiting effectiveness of soap in industrial uses. Synthetic detergents are not susceptible to such drawbacks. Now that consumers are being more thoroughly educated to this newest type of cleansing agent, popularity is expected to increase — perhaps partly at the expense of older competing products.

Basic raw materials used in manufacturing detergents usually are less vulnerable to wide price fluctuations than tallow and cocoanut oil. Hence, as dependence on these volatile products becomes less important in overall manufacturing operations, management may gain better control over costs. Just as in the case of the tire industry, greater stability in prices of raw materials would be expected to contribute to narrower fluctuations in inventory risks. The result is likely to be greater assurance of regularity in earning power. And stability of earnings and dividends is a factor that appeals to investors.

The Shift in Durable—Non-Durable Production Pattern

(*Continued from page* 165)

date such outlays have held at a high level. Government sources estimate total 1949 spending for plant and equipment at around $17.9 billion, consisting of $9.1 billion actual expenditures in the first half and $8.8 billion anticipated outlays in the second half on basis of indicated business intentions. The estimated 1949 total would be $1.3 billion or 7% under the record outlays for 1948, but $1.7 billion over the total of 1947, the next highest year on record. Actual expenditures for the first half were somewhat above the comparable period last year, but the estimate for the second half is about 14% under those of last year. While the indicated decline may be over-estimated, some falling off is virtually certain though it may not be unduly drastic thanks to an offsetting rise in Government spending. In 1950, the decline is likely to be more pronounced.

This points to a further downward slant of the durable goods curve vis-a-vis a probably fairly well maintained production curve for non-durable goods, paving the way for the ultimate signal of a renewed uptrend. In the meantime, how much decline?

Assuming no great falling off in personal incomes (not indicated so far), much will depend on the selling efforts of consumer durable goods manufacturers. Outlays for consumer durables in the postwar have been consistently outrunning spending for producers' durable equipment; if new construction is included, it came to almost twice the latter, hence it is the former rather than the latter which is the key factor in the outlook. If both should fall off substantially, a deepening of the recession is inevitable.

The chances are that none will. Capital goods outlays are bound to slacken off, for postwar industrial expansion can hardly continue at the recent high rate. But the decline will be softened by the continued need for production efficiency in a highly competitive era. For that reason, capital spending by manufacturing industries, while lower, should hold at a respectable rate, further supported by the requirements of the defense program, ECA and other governmental activities, as well as by long range expansion programs by such industries as utilities, petroleum and the railroads.

Spending for consumer durable goods is also likely to tend lower, not only because of lower prices but because much of such spending will be back on a replacement basis. This basis, however, is considerably broader than prewar, and we can rely on industry's ingenuity and aggressiveness to broaden their markets continually. Especially if prices continue to come down for the benefit of the consumer, resultant savings will add much to the public's purchasing power, correspondingly enhancing market potentials for consumer durables.

Stabilization vs. Decline

Because of the importance of the latter in the overall equation, and that of armaments and public works, there is a reasonable prospect for stabilization of durable goods activity at a somewhat lower level rather than an abrupt and sharp decline in the durable goods production curve. What's more, it would seem a reasonable expectation to expect downward cycles in the future to be of rather shorter duration than when they were primarily determined by fluctuations in capital goods expenditures. Admittedly this still has to be borne out by experience; an added supporting factor at the present juncture is the high amount of personal incomes and liquid assets by individuals.

As to the more immediate trend, after subsidence of the expected post-strike spurt in production, more reliable clues to what's ahead are bound to emerge. They will be found in the trend of steel production, of machinery output, of activity in the automobile and appliance industries.

The pattern of the durable and non-durable goods curves has for some time been signalling an adjustment has come; but nowhere as yet is there conclusive evidence that the adjustment is over. But just as it has been moderate in the past because of its rotating character, it is likely to continue moderate because of the various sustaining factors mentioned.

For Profit and Income

(Continued from page 187)

Cement

Earnings of cement makers this year will set new all-time highs in most cases. The outlook appears generally good, whether or not the high 1949 profits are maintained, for some time to come. The activity in residential building and in

public works is only partly cyclical and only partly a matter of needs deferred during the war. Perhaps the most basic thing has been the extraordinary growth in the number of marriages and births in recent years. It is continuing at a rate much above all prewar projections. It has broad economic implications and decisively affects the fortunes of some companies. It creates need for, among many other things, more homes, public buildings, transportation and highway construction or improvement. Evidently the cement companies do not trust their good luck at being in a favored line. For a field requiring little or no expansion, dividend policy is mostly over-conservative. In few cases do dividends approach even 50% of earnings. The policy of Lehigh Portland Cement, now paying a regular $2 annual rate out of estimated net of close to $7 a share, seems one of the most indefensible. Probably profit-taking switching out of most cement stocks is justified on comparative yield factors, regardless of the good profit outlook for the foreseeable future.

Growth

Growth stocks are always among the best bets for longer-term purchases when periodic market sell-offs present opportunity therefor. A few in that category, which this column thinks you might do well to keep in mind, are Dow Chemical, Minneapolis-Honeywell Regulator, Abbott Laboratories, Minnesota Mining & Manufacturing, Industrial Rayon and Standard Steel Spring.

No Loss

There are scores of companies, by no means all of them in stable consumption-goods fields or in the public utility field, which have never operated at a loss under the worst general business conditions. Some of the most notable examples are American Can, Burroughs Adding Machine, CIT Financial, Corning Glass, Eastman Kodak, General Electric, Island Creek Coal, May Department Stores, National Lead, Norfolk & Western, and U. S. Gypsum. Many others could be cited. However, it is only one of many points to consider. Despite the record, few such stocks are inviting at present prices.

The Global Battle for Oil

(*Continued from page* 176)

sources before long. Our oil industry has lost no time in advocating an increase in oil duties or a quota pattern that would restrict imports to, say, 5% of domestic production. As we all know, however, Washington is placing increased emphasis on easing dollar shortages of Britain and other Marshall Plan countries through increased purchases of any commodities they can produce, and oil is as good as dollars in foreign eyes under current conditions. Hence to-date, Washington seems less inclined to listen to the pleas of oil industry representatives than to note the the present prosperity characteristic of this group.

The outlook for corrective steps, however, is not wholly gloomy, it is thought that the prospect of a top heavy world oil supply is on the agenda of British-United States talks now under way in Washington. Then it may appear essential to ECA, as we have pointed out, to smooth the way for international cooperation in planning to allocate and control world production and distribution of oil products.

The Struggle for Germany

(*Continued from page* 173)

unquestionably be "the aggressive pursuit of German national interest," as the London Economist puts it. The German nationalists would simply try to get the best of the situation not only by playing one Western Ally against another, but by playing the Western Allies against the Russians. The world would then be treated to a spectacle where the East and West German states would be blackmailing their respective backers into granting concessions and favors, and the whole struggle for Germany would turn into a competition for German loyalties and a contest for appeasement of rising German nationalism.

The Paris Conference is unlikely to reach any decisions on the exact course to be followed. But it may mark the beginning of a new stage which will either

turn the West German State into a willing and convinced collaborator in the building of a new Western Europe—or mark the beginning of Germany's comeback as a world power. In the former case, a neutral Germany—strong and peaceful — could prove to be a "third force," a buffer area which would prevent the continent of Europe from becoming a battlefield in the struggle between East and West. In the latter eventuality there is always the possibility that the new Germany might also follow the expansionist policies of "earlier Germanies."

On the whole, western Germany's bargaining power has greatly improved. Arguing against further razing of industrial plants is the necessity for integrating the revived German industry into Western European recovery under the Marshall Plan, and the absurdity of the American taxpayer subsidizing German recovery while the Allies are destroying the factories. The other factor is Stalin's new East German satellite state and the Allied-sponsored West German republic. Such a universally unpopular policy as dismantling is apt to undermine public support of the Bonn government, discourage the latter's cooperation with the West and play into the hands of Stalin and his competing East German state. Hence the need for a reorientation of policy.

Is RFC Becoming Haven for Shaky Business?

(*Continued from page* 167)

be many other sound thinkers who will agree with him in this respect. Then there are experienced business men who will point out that the element of managerial efficiency, a factor obscured when a borrower per se has trouble in raising needed capital, is a matter with which no Government agency can cope. Above all will arise the question as to the propriety of risking taxpayers' money just to promote intensified competition and to restrict the growth of concerns that have achieved unusual success. Such policies clearly point to Government controls that are closely attuned to statist theories.

An interesting sidelight on the controversy has been case by Emil Schram, president of the New York Stock Exchange, but a former chairman of the RFC. Mr. Schram asserted that "at best, a vaguely defined lending policy to business by a public corporation with large available capital invites political pressure difficult to resist, and the whole policy is unsound." He added that the harmful influences of an agency such as the RFC outweigh the small advantages it may accomplish and that he had yet to find any authority in the field of finance who would perpetuate the RFC, much less broaden its authority.

Contradictory Law

Returning to the wordage of Public Law 528, it is obvious that the well meaning restrictions Congress placed upon RFC are contradictory. On the one hand, the Corporation is loosely denied the privilege of extending aid to any borrower unless no other lenders are available to supply assistance on "reasonable" terms. In an economy such as ours such a situation occurs only when a management lacks ability to attract private capital or has such a shaky credit standing that prudent bankers refuse to come to the rescue. Or, what seemed reasonable terms for the advance of clearly defined risk capital by the lender by commonly accepted standards might not meet the approval of the borrower, a very common occurrence among promoters with an eye on large profits or among business men short of cash. The alternative of turning to RFC, with a 4% limit on interest rate, suggests a way out of the dilemma without too much preliminary effort in other directions, though the Corporation of course tries hard to rebuff such applicants.

Main Paradox

The main paradox, though, presents itself in the provision that RFC must make no loans unless they are sound or reasonably secured. Considerable stretch of the imagination is required to envisage as "sound," an enterprise that despite every effort has failed to attract capital privately or in the open market, or has found its assets or collateral too limited in quality or amount to meet ordinary banking standards. Mere pledging of physical assets with a book value well in excess of the requested loan is a slim assurance of repayment if an enterprise goes on the rocks. Potential earnings are

always the main prop of security, and lacking a clearly good past record, the RFC is forced to rely strongly on sheer optimism, political or social motives in determining its decisions.

The highly publicized aid of RFC to several large borrowers, knowledge of its huge lending power, and the impact of inadequate working capital upon numerous business enterprises in a readjustment year like 1949, has swelled the stream of would-be borrowers to the Corporation. Inquiries for loans in the first half year were nearly three times as numerous as in the corresponding period of 1948, while the amount of funds involved rose at a sharper rate. Cautious as RFC's policies may be, the time evidently has come to decide once and for all to what extent, if any, Washington will be permitted to hand out vast sums of taxpayers' money to shaky borrowers.

Finally, some consideration must be given to the cost of the present program in relation to its potential benefits. RFC operates not only its headquarters in Washington, but 31 local lending offices as well. As of June 30, 1948, when the Corporation's outstanding loans were only $303 million, they required a staff of 3167 employees to administer them. Any private bank attempting to function profitably on such a basis probably would be short-lived, but as we all know, profit and loss considerations sometimes do not count heavily in Welfare State planning and activities.

Trend of Events

(*Continued from page* 156)

quickly dealt with. Together with other purely political issues, it has tended to create some sort of a circular impasse among the three major western nations which the "Big Three" apparently have been unable to break. Nor was this expected. But the widening breach has been faced. What further attempts to deal with it will produce remains to be seen. Needless to say, the ultimate outcome will have a tremendous bearing on the future of Europe and the world.

As I See It!

(*Continued from page* 157)

Hongkong. They are anxious not only to preserve the Crown Colony but their formerly lucrative trade with the Chinese mainland. They may be able for a time to get trade for recognition, but in the end they are bound to lose out as communism sweeps through all of Asia, threatening the vital Middle East as well.

Britain has kept her promise of consultation with us on the recognition issue but has never promised joint action. Apparently she doesn't intend to wait until our own policy has crystallized, and we certainly are unlikely to do anything until the Chinese communists at least live up to the basic standards of international comity. Thus a split in Anglo-American policy seems imminent, and it won't help matters any. It will help the communists and add to their prestige, but it won't boost western prestige. In the interest of the latter alone, Britain would be well advised to withhold action until a joint Anglo-American policy towards Communist China can be evolved. She should do the same in the interest of British world position and her own future. For by assisting communism to spread ever wider, the process of Britain being pushed back into her "tight little isle" will only be accelerated.

Weighing Inflationary-Deflationary Market Factors

(*Continued from page* 159)

exact timing of a currency move. That devaluation is "contemplated" is always officially denied, or at least not confirmed, until the fact is announced.

Probably the majority of investors are on the conservative side in their political leanings. Hence, there is little comfort for them in the outcome of the recent various state and municipal elections. In general, the results showed that the Fair Deal's popular appeal is still strong. To what extent this might weaken the moderating influence of conservative and middle-road members of Congress at the next session is problematical. There is a pretty good chance, however, that the President will eventually be able to erect much of his Welfare State unless checked significantly in the 1950 Congressional elections. They may be fateful. Pending the answer, this lurking uncertainty is one more obstacle to a real bull market. If there are inflationary implications in a Welfare State, they are more than balanced, so far as the stock market is concerned, by the inevitable threat of higher taxes and multiplying Government controls over the economy.

The steel and coal strikes hav-

IN OUR NEXT ISSUE
TUG-OF-WAR BETWEEN INFLATION-DEFLATION

ing been virtually ignored by the market, the end of the former, on terms favorable to the union, and the lifting of the latter at least until December 1, are naturally no cause for market celebration. The general business outlook for the foreseeable future remains fair-to-middling — not very bullish, not very bearish. Perhaps the same can be said for the stock market. Continue to maintain conservative cash reserves for future buying opportunities. —Monday, November 14.

What More Taxation Will Mean to Our Economy

(*Continued from page* 162)

tax rates, we could never make ends meet so long as our principal budget items are held "untouchable" and social aims are continued. As matters stand today, regardless of how we look at our budgetary problem, higher taxes are *not* the answer and cannot be because they will only aggravate the problem. The only practical answer is economy in Government.

BOOK REVIEWS

CONTROLLING FACTORS IN ECONOMIC DEVELOPMENT
By Harold G. Moulton

This book deals with the fundamentals underlying economic advancement. The analysis is in sharp contrast with the older treatises on economics which were largely preoccupied with the limits or restrictions imposed by nature and also with later works which were more concerned with the forces which maintain economic systems in a state of equilibrium. While offering a comprehensive analysis of the impeding and restricting factors, it gives equal attention to those of a dynamic nature which have progressively offset the limitations of nature and opened vast possibilities for future development.

Part I appraises the forces and factors which accounted for the extraordinary and unexpected economic progress of the nineteenth and early twentieth centuries, and also the sources of maladjustment which restrained the rate of advancement. Part II looks forward and indicates the economic potentialities of the century ahead and outlines the policies essential to their realization.

The Brookings Institution — $4.00

THE BRAZILIAN ECONOMY
By Henry William Spiegel

This is the book of the day on Latin American economies. Given exceptional opportunities under the auspices of the Guggenheim Foundation to study at first hand the economic problems of our great neighbor to the south, the author has brought to light the essential basic situations, their causes, trends and the possible solution of pressing problems. In the Americas, Brazil's population is second only to that of the United States, and its territory is considerably larger. Its potential strength is impressive. The issues discussed by the author are thus of importance in themselves, and the analysis throws light on the more general problems of industrialization under similar conditions. The book can be especially helpful to college and university students in the upper classes as well as to economists and students of Latin America. It can be used in courses on Latin American Economic Problems; Latin American Economic Geography, and in International Economics.

Blakiston — $4.50

WHY INDUSTRY MOVES SOUTH
By Glenn E. McLaughlin and Stefan Robock

Expanded industry can bring the South higher incomes, better living standards, and more adequate public revenues for education, health, and welfare services. But expanding industry in the South benefits the whole country, too.

This book, prepared for the NPA Committee of the South, is based on a careful investigation of company records, but most importantly on the authors' analyses of their conversations and correspondence with the business executives who were responsible for locating 88 new plants—many representing investments of over $10 million—in 13 southern states since the war's end.

The case studies turn up a surprising conclusion: The companies setting up the 88 new plants in the South were not seeking "cheap labor"! The three major locational factors were *good markets*, first; *available materials*, second; and *labor supply*, third. Supply of labor, low labor turnover, and satisfactory labor attitudes are more important than the South's allegedly cheap labor.

The 88 plants are in major industrial groups. Included are tire plants; automobile assembly units; chemical plants;

BOOK REVIEWS

pulp and paper mills; steel mills; aluminum plants; rayon, nylon, cotton, and woolen mills; oil refineries and oil fields; electrical goods and various machinery factories; mines; electric power systems; and several types of food processing industries.

Individuals, business, and development groups throughout the country can better assess their region's resources for industrialists seeking new locations with these documented answers to such questions as:

Why are the industries moving South?

What factors do producers consider in choosing between possible locations?

What general or particular advantages do they seek?

What kind of information do they need?

NPA Committee of the South Reports $3.00

THE EAGLE IN THE EGG

By Oliver La Farge

In nothing were we weaker when war was declared than air transportation. Although our airlines had been continually expanding, there was little coordination between them and the Air Force. Equipment, though well adapted to the needs of commercial aviation, was not suitable for military flying and was dangerously scarce. The only organization even resembling an Air Transport Command was the British "Ferry" System, and it was operated on a small and specialized scale.

One of the miracles of the war was the dramatic growth, from this most unpromising egg, of the mightiest system of airways ever achieved. By 1945 the ATC flew routes all over the world. It was able to move tons of supplies over the 20,000 foot passes of the Himalayas, to fly into Japan the entire invading force, and to carry hundreds of thousands of tons of cargo across the oceans of the world. It controlled bases in Arctic wastes and in tropical jungles and bound the earth more closely together than had ever been posible before. The problems of organization for such an empire were fantastic and impossibly complicated, and they were surmounted only by the boldness and imagination of the men in command. Their work has changed the whole pattern of world aviation.

The history of military transport flying is important for Americans because it is also the history of our commercial air fleet. When Pearl Harbor came, the Navy was able to follow a well-established procedure in organizing its transport fleet, but the Air Force had to start from scratch, improvising and testing as it went along. And its achievement has not been limited to the war years. The remarkable effort of the Berlin airlift, which was made possible only through techniques developed during the last seven years, has proved the present worth of our Transport Comand as an implement of National Policy, as well as a potential arm in time of war.

Houghton Mifflin Co. $3.50

CONSTRUCTIVE USES OF ATOMIC ENERGY

Edited by S. C. Rothman

Practically every person alive today is aware of the frightful potentialities of atomic energy for destruction. But, as this volume demonstrates so clearly, its potentialities for good may be even more significant.

Here is the first book to describe for the layman this "Peaceful Atom"—the uses to which it is already being put in such fields as industrial power, chemistry, metallurgy, aviation, ceramics, soil-fertilizer research, and biological, pharmaceutical, and medical research.

Constructive Uses of Atomic Energy brings together, in unified and easily understandable form, fourteen articles by scientists who are among the leaders in atomic research in many fields, beginning with Dr. Arthur H. Compton, the Nobel Prize-winning physicist.

Here is a clear and comprehensive picture, illustrated with illuminating photographs and drawings, of the most exciting subject of our time, particularly significant because it highlights utilitarian values and directs attention to the potential everyday usefulness of atomic energy.

Constructive Uses of Atomic Energy is a book of vital importance for the intelligent layman and especially for the industrial executive, who is here offered abundant evidence that the technology of the atom is rapidly becoming an integral part of American industry.

Harper $3.00

TURKEY, AN ECONOMIC APPRAISAL

By Max Weston Thornburg, Graham Spry and George Soule

This economic appraisal of modern Turkey—the Turkey of the jet plane, and the Turkey of the oxcart—was undertaken before President Truman's announcement concerning aid to underdeveloped areas. It now assumes added importance in the light of that "bold new program."

Here are the facts that American businessmen and persons concerned with government policy need to know. Turkey is a land of great resources, but a burdensome taxation system and the policy of State control are formidable obstacles to effective aid from the outside. Constructive and specific suggestions are made, however, looking toward the application of American know-how and capital in the development of a free and strong Turkish economy.

The Twentieth Century Fund $3.50

LOST PEACE IN CHINA

By George Moorad

Is it too late to stop retreating in China, too late to prevent the Iron Curtain from falling? Will Communism suit the character of the Chinese people? Will they accept it for very long? How does China's crisis threaten the free world?

Plain spoken and richly informing, this book presents clearly a subject on which it is difficult for Americans to learn the truth today. George Moorad knows both China and Soviet Russia as few Americans do. In *Lost Peace in China,* he gives the reader not only a clear understanding of the situation in China, and the events that have led up to it, but also of the policies of Russia and America. It is a disturbing and challenging picture, of vital importance to our present and future security.

George Moorad writes from the viewpoint of his own first hand experiences during the chief crises of China's recent history and of his assignment as correspondent in Soviet Russia. His book forms an exciting personal narrative as he takes the reader to Hongkong immediately after its liberation, to postwar Shanghai, to Chungking, to Peiping, and to Soviet-dominated Manchuria.

He appraises with sound balance the decisions made at Cairo and Yalta, the successes and failures of the Central Government and of Chiang Kai-shek, the pattern of Soviet Imperialism in the Far East, and the part played by America in the disintegration of China.

Dutton $3.00

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Edited by Herschel Brickell

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